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**Comprehensive
Annual Financial Report**
For The Fiscal Year Ending June 30, 1997

**LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**
360 East Second Street, 8th Floor
Los Angeles, California 90012-4207

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INTRODUCTORY SECTION

LACERS





Comprehensive Annual Financial Report

For The Fiscal Year Ending June 30, 1997

Los Angeles City Employees' Retirement System
360 East Second Street, 8th Floor
Los Angeles, California 90012-4207

CITY OF LOS ANGELES
CALIFORNIA



RICHARD J. RIORDAN
MAYOR

CITY EMPLOYEES'
RETIREMENT SYSTEM

360 EAST SECOND STREET
8TH FLOOR
LOS ANGELES, CA 90012-4207

OSCAR PETERS
GENERAL MANAGER
(213) 485-2824

BOARD OF
ADMINISTRATION

WILLIAM H. DOHENY, JR.
PRESIDENT

SHELLEY I. SMITH
VICE PRESIDENT

MICHAEL J. GALVIN
JAN CHARLES GRAY
BEVERLY RYDER
KEN SPIKER
BEVERLY BENEDICT THOMAS

LETTER OF TRANSMITTAL

December 23, 1997

Board of Administration
City Employees' Retirement System
360 East Second Street, 8th Floor
Los Angeles, CA 90012

Dear Members of the Board:

The Comprehensive Annual Report (CAFR) of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ending June 30, 1997, is submitted for your review.

In 1937, this City department known as the City Employees' Retirement System was established so that "employees who shall have reached the age of sixty years or over, or who shall have become incapacitated as the result of any disability, may without hardship or prejudice, be replaced by more capable employees" (Article XXXIV, Sec. 500 of the City Charter, adopted 1937). Today, sixty years later, LACERS continues to administer the assets for its participants and beneficiaries with a clearly defined mission. The essence of LACERS' mission is embodied in its mission statement which is to "proactively manage the delivery of benefits and the investment of trust assets for the exclusive benefit of its current and future members". The core of its mission statement encompasses a commitment to fulfilling fiduciary duty, demonstrating strong integrity, and planning strategically for the future. It also embraces the values of thinking independently but working as a team, maintaining open communication, and achieving effective performance. It promotes the merits of providing member-oriented service, acting professionally and courteously, demonstrating a positive and enthusiastic attitude, and continually expanding knowledge. Guided by its mission statement and directed by its seven-member Board of



Administration, LACERS is committed to delivering quality and responsible service in the administration of the plan assets for the 12,756 beneficiaries receiving monthly benefits and 22,424 active members.

The management of LACERS is the responsibility of the Board of Administration. Therefore this report is designed to provide you with a complete and accurate review of the year's operations. The required financial statements have been prepared in accordance with generally accepted accounting principles, the reporting guidelines of the Government Accounting Standards Board (GASB), and the City Charter. Deloitte and Touche LLP, independent auditors, have audited the financial statements and attested to their accuracy. Management believes that the internal control structure is adequate and that the accompanying statements, schedules, and tables fairly represent the information provided.

STRUCTURE OF THE REPORT

This report is presented in four sections:

- The Introductory Section describes LACERS' management and organizational structure. It includes a listing of professional services used.
- The Financial Section contains the opinion of the independent auditor, Deloitte & Touche LLP and the financial statement of LACERS prepared in accordance with GASB guidelines.
- The Actuarial Section includes the certification letter of LACERS' independent actuary, Watson Wyatt Worldwide, along with supporting schedules and information including a summary of plan provisions.
- The Statistical Section contains schedules with the comparative data related to revenue and expenses.

FINANCIAL AND ECONOMIC SUMMARY

For the first time in years, the economy of the City showed signs of recovery, but it continues to lag behind the nation and the rest of California. Growth in the local economy has come primarily from an upturn in the real estate market, the growing number of small businesses, and the boom in the entertainment industry.

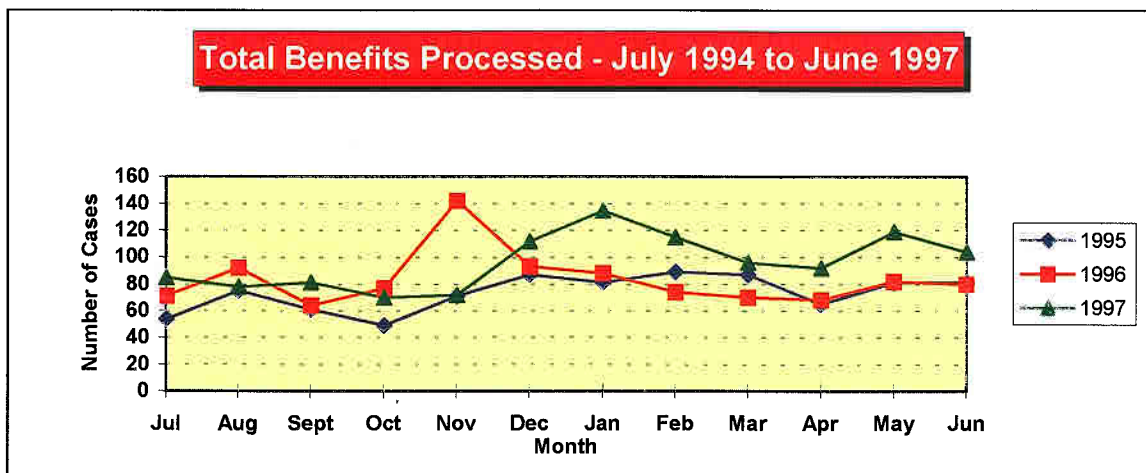
However, this local upturn has not translated into higher revenues for the City. Nevertheless, the global financial markets led by the United States stock market continued to produce extraordinary returns. Good long-term investment returns coupled with modest inflation, have allowed the Fund to approach a fully-funded status and to reduce the City's cost.

LACERS' excellent funding status is particularly significant when considered in light of the following benefit enhancements that were approved by the City Council during the year:

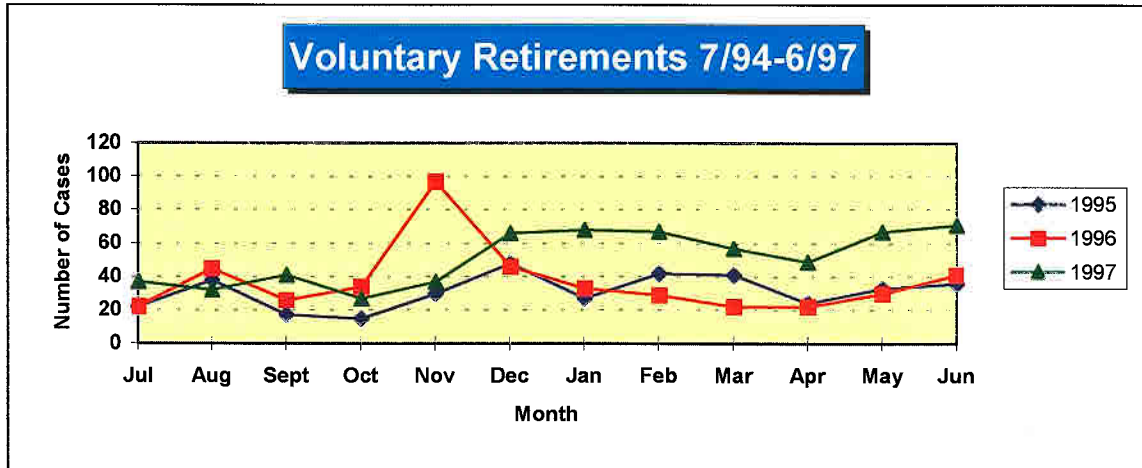
- reduced early retirement discount factors;
- eliminated reduction factor for three years for retirements at age 50 with 30 years of service (normal requirements are age 55 and 30 years of service);
- equalized domestic partner benefits to spouse's benefits;
- increased the death benefit of retiree from \$500 to \$2,500;
- increased benefits of the surviving spouse of a deceased active member to the equivalent of a 100% continuance disability benefit;
- added medical insurance subsidy for surviving spouses (phased in over three years);
- implemented Government Service Buyback program (GSB) - this allows members to purchase retirement service credit for other government service if they are not entitled to a retirement benefit for that term of service;
- increased Family Death Benefit Insurance Payment (FDBIP) to current Social Security levels, i.e., increased the family maximum benefit from \$750.20 to \$2,186.90.

The enactment of these benefit changes was spread over several months. Staff communicated the new benefit information to the active members and the retirees in a timely manner by doing multiple newsletters and by expanding their counseling program. Staff geared up for the anticipated onslaught of GSB applications. Over 2,200 members received counseling on GSBs and more than 6,000 years of service credit were purchased in six months.

The number of cases processed increased substantially compared to the last two fiscal years. The graph below illustrates the increased number of retirement benefits processed.



During this three-year period the number of deceased active and retired cases has remained relatively constant, while the number of voluntary retirements has skyrocketed with the impact of the benefit enhancements culminating with the GSB in January. The graph below illustrates the number of Voluntary Retirements for the fiscal years 1994-95, 1995-96, and 1996-97.



During this fiscal year, the average monthly pension payment per member rose to \$1,675.00. LACERS' active membership fell to 22,878 reflecting a decrease of 154 members from the prior year. The reduction in active membership and the increasing number of retirees have placed a greater burden upon LACERS to provide a good return on investments.

LACERS funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 1997, the funded ratio of the System was approximately 97.1%. LACERS experienced a net increase of \$841.7 million during the year, with a total of \$6.03 billion in assets.

INVESTMENTS SUMMARY

The portfolio returned 19.2% for the fiscal year. Almost all asset classes outperformed their benchmarks. The expected long-term rate of return for the portfolio is slightly above the 8% assumed actuarial rate. The portfolio's annualized return for the last five years was 13.1%. Over the last five years, the market value of LACERS' portfolio has grown from \$ 3.1 billion to \$ 6.03 billion.

SUMMARY

Today, LACERS is a multi-billion dollar public fund. It has over 37,000 plan participants. It is nearly fully funded. What drives a fund of this size and strength? What gives it character and direction? It is the Board acting as a cohesive unit to give a strong policy to staff, and staff committed to implementing the policy.

I would like to express my appreciation to the entire Board of Administration for lending its unique and effective leadership in achieving the goals of LACERS. I would also like to thank the staff of LACERS for their diligent efforts, for taking pride in their work, and for their all-around exceptional performance. I believe that we have served our members well in a year of change and challenges.

Respectfully submitted,



OSCAR PETERS
Manager-Secretary



LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION
FISCAL YEAR 1996 - 1997

WILLIAM H. DOHENY, JR.
President

MICHAEL J. GALVIN
Vice President

SHELLEY I. SMITH
Commissioner

JAN CHARLES GRAY
Commissioner

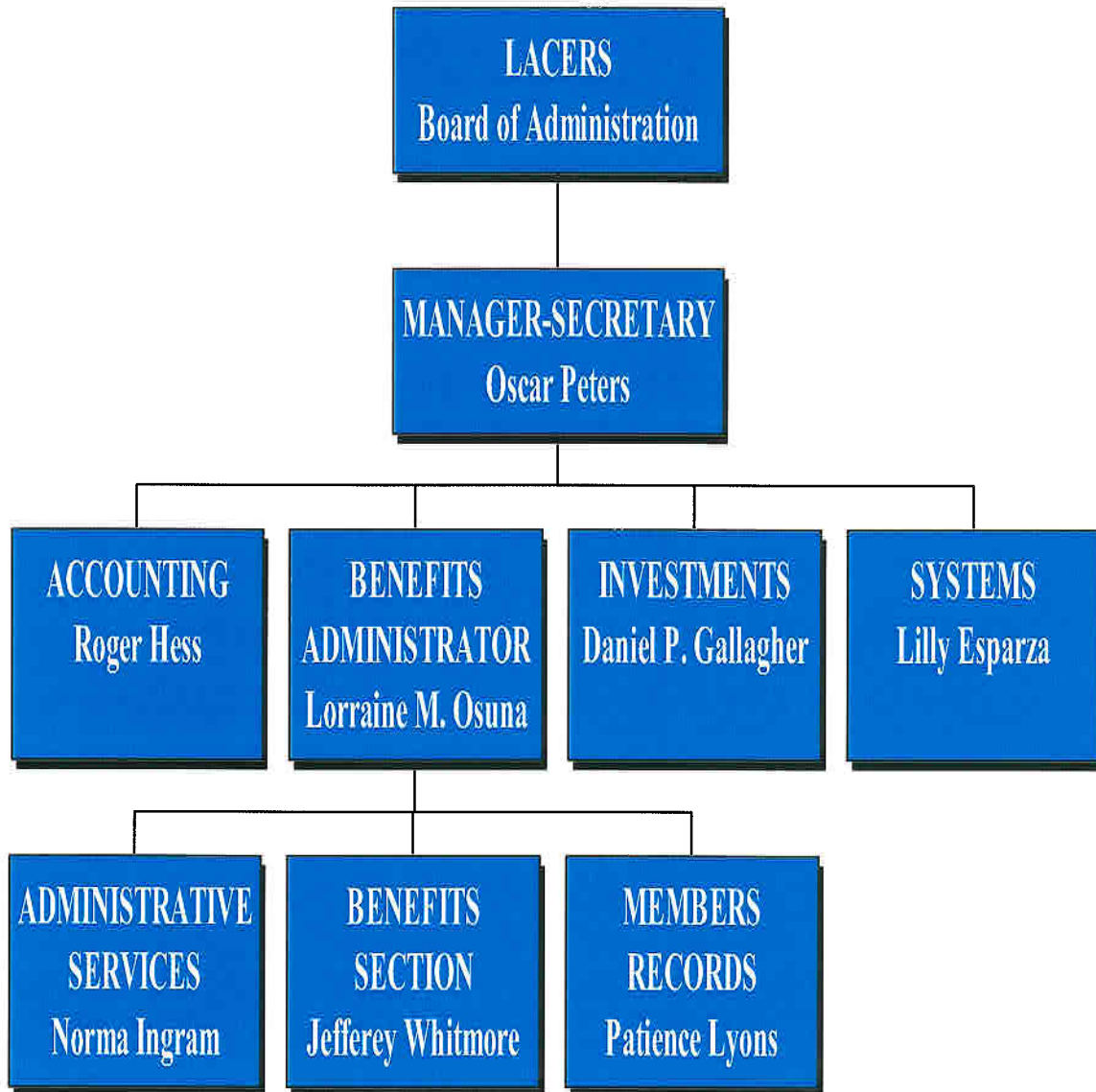
BEVERLY RYDER
Commissioner

KENNETH SPIKER
Commissioner

BEVERLY BENEDICT THOMAS
Commissioner

OSCAR PETERS
Manager-Secretary

ORGANIZATIONAL CHART



PROFESSIONAL SERVICES

ACTUARY

Watson Wyatt Worldwide
Sherman Oaks, CA

AUDITOR

Deloitte & Touche
Costa Mesa, CA

BENEFICIARY VERIFICATION

Pension Benefit Information
Tiburon, CA

**PRE-RETIREMENT PLANNING
SERVICES**

Watson Wyatt Worldwide
San Francisco, CA

SYSTEMS CONSULTANT

Myron L. Nack
Cypress, CA

SUMMARY

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LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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FISCAL YEAR 1996 - 1997

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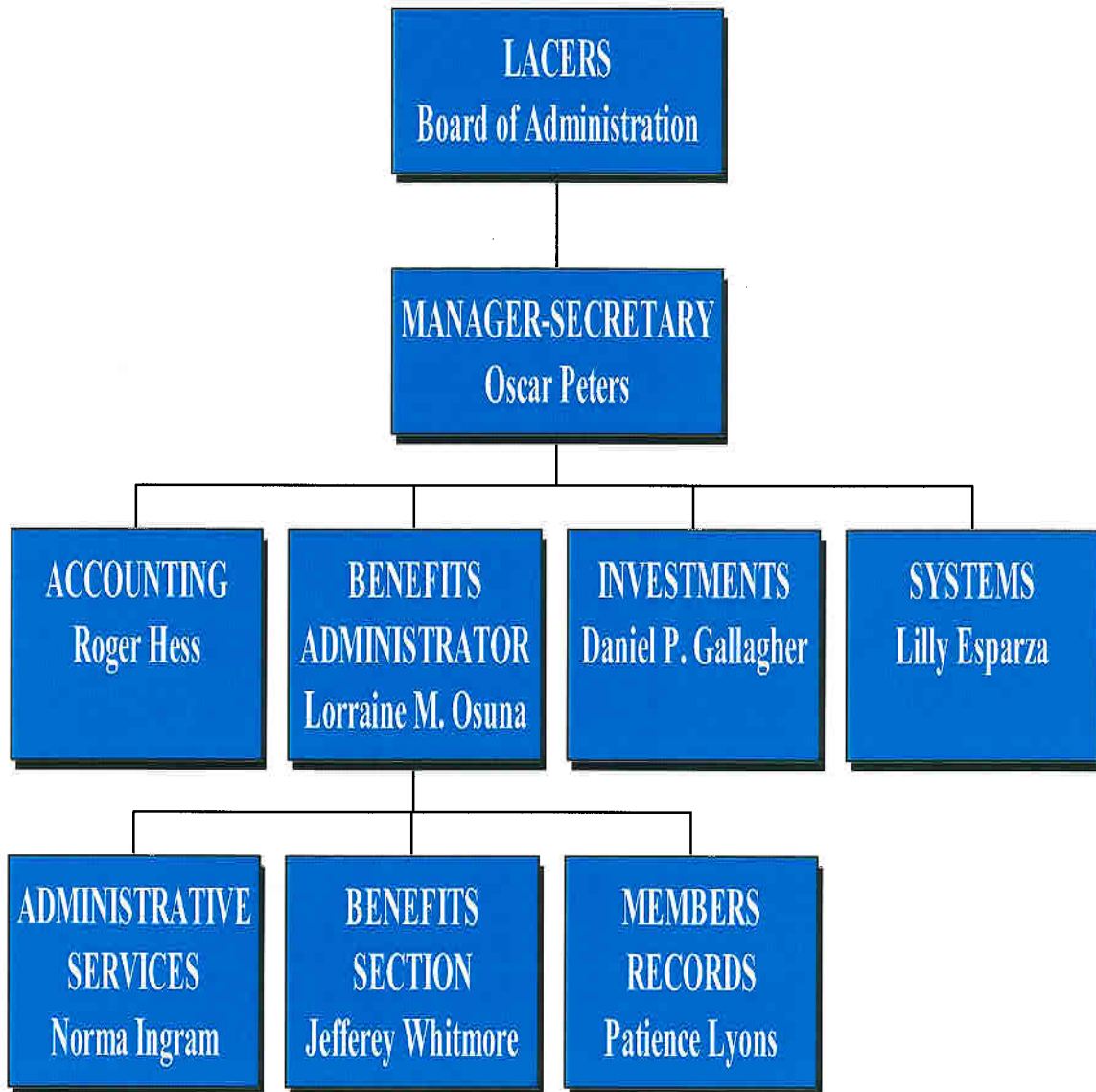
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ORGANIZATIONAL CHART



PROFESSIONAL SERVICES

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Watson Wyatt Worldwide
Sherman Oaks, CA

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Deloitte & Touche
Costa Mesa, CA

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Pension Benefit Information
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Cypress, CA

FINANCIAL SECTION

LACERS



**Deloitte &
Touche LLP**



**LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM**

**GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1997,
SUPPLEMENTAL SCHEDULES AND
INDEPENDENT AUDITORS' REPORT**

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

Honorable Members of the City Council of
the City of Los Angeles, California,

and

Board of Administration
Los Angeles City Employees' Retirement System
Los Angeles, California

We have audited the accompanying combined retirement plan and postemployment healthcare plan statement of plan net assets of the Los Angeles City Employees' Retirement System (the System) as of June 30, 1997 and the related combined retirement plan and postemployment health benefits statement of changes in plan net assets for the year then ended. These general purpose financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the combined financial position of the Los Angeles City Employees' Retirement System as of June 30, 1997 and the combined results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic 1997 general purpose financial statements taken as a whole. The supplemental schedules of funding progress, revenues by source, expenses by type and employer contributions and trend data are presented for the purpose of additional analysis and are not a required part of the basic general purpose financial statements. These schedules are the responsibility of the System's management. Such schedules for the fiscal year ended June 30, 1997 have been subjected to the auditing procedures applied in our audit of the basic general purpose financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic general purpose financial statements taken as a whole.

DeLoe & Touche LLP

November 7, 1997

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

COMBINED RETIREMENT PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN STATEMENT OF PLAN NET ASSETS AS OF JUNE 30, 1997

	Retirement Plan	Postemployment Healthcare Plan	1997 total
ASSETS			
CASH AND SHORT-TERM INVESTMENTS (fair value) (Note 6)	\$ 354,223,458	\$ 34,687,843	\$ 388,911,301
RECEIVABLES:			
Accrued investment income	32,512,196	3,183,804	35,696,000
Proceeds from sales of investments	92,298,375	9,038,452	101,336,827
Other	4,235,230	414,741	4,649,971
Total receivables	129,045,801	12,636,997	141,682,798
INVESTMENTS, at fair value (Notes 6 and 7):			
U.S. Government obligations	676,323,398	66,229,944	742,553,342
Municipal bonds	1,503,252	147,208	1,650,460
Domestic corporate bonds	355,741,538	34,836,503	390,578,041
International bonds	351,473,722	34,418,571	385,892,293
Domestic stocks	2,406,128,050	235,623,559	2,641,751,609
International stocks	993,662,748	97,305,857	1,090,968,605
Mortgages	162,207,592	15,884,412	178,092,004
Real estate	111,639,395	10,932,449	122,571,844
Venture capital and alternative investments	28,286,196	2,769,966	31,056,162
Security lending collateral	997,434,762	97,675,238	1,095,110,000
Total investments	6,084,400,653	595,823,707	6,680,224,360
Total assets	6,567,669,912	643,148,547	7,210,818,459
LIABILITIES			
Accounts payable and accrued expenses	(6,421,788)	(628,863)	(7,050,651)
Purchases of investments	(35,393,992)	(3,466,008)	(38,860,000)
Security lending collateral	(997,434,762)	(97,675,238)	(1,095,110,000)
Total current liabilities	(1,039,250,542)	(101,770,109)	(1,141,020,651)
Net assets held in trust for pension benefits and postemployment healthcare benefits (a schedule of funding progress is presented on page 17)	<u>\$ 5,528,419,370</u>	<u>\$ 541,378,438</u>	<u>\$ 6,069,797,808</u>

See notes to general purpose financial statements.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

COMBINED RETIREMENT PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED JUNE 30, 1997

	Retirement Plan	Postemployment Healthcare Plan	1997 total
ADDITIONS:			
Contributions:			
Employer	\$ 88,981,922	\$ 24,280,474	\$ 113,262,396
Plan member	<u>53,274,812</u>	<u>53,274,812</u>	<u>53,274,812</u>
 Total contributions (Note 3)	 142,256,734	 24,280,474	 166,537,208
Investment income:			
Net appreciation in fair value of investments, including gain, on sales	1,282,798,799	261,948,720	1,544,747,518
Interest	132,867,466	7,784,977	140,652,443
Dividends	48,619,715	2,848,729	51,468,444
Real estate operating income, net of expense (Note 10)	<u>8,709,369</u>	<u>510,300</u>	<u>9,219,669</u>
	1,472,995,348	273,092,726	1,746,088,074
Less investment management expense (Note 10)	<u>(13,056,959)</u>	<u>(13,056,959)</u>	<u>(13,056,959)</u>
 Total investment income, net	 <u>1,459,938,389</u>	 <u>273,092,726</u>	 <u>1,733,031,115</u>
 Total additions	 <u>1,602,195,123</u>	 <u>297,373,200</u>	 <u>1,899,568,323</u>
DEDUCTIONS:			
Benefits	(227,969,520)	(20,010,324)	(247,979,844)
Refunds of contributions	(9,447,708)	(9,447,708)	(9,447,708)
Administrative expenses (Notes 9 and 11)	<u>(4,688,544)</u>	<u>(167,850)</u>	<u>(4,856,394)</u>
 Total deductions	 <u>(242,105,772)</u>	 <u>(20,178,174)</u>	 <u>(262,283,946)</u>
 NET INCREASE	 1,360,089,351	 277,195,026	 1,637,284,377
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:			
Beginning of year	<u>4,168,330,019</u>	<u>264,183,412</u>	<u>4,432,513,431</u>
 End of year	 <u>\$ 5,528,419,370</u>	 <u>\$ 541,378,438</u>	 <u>\$ 6,069,797,808</u>

See notes to general purpose financial statements.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997

1. DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES

General - The Los Angeles City Employees' Retirement System (the System) is under the exclusive management and control of the Board of Administration (the Board), whose authority is granted by the Los Angeles City Charter (Article XXXIV). The System is an independent department of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles' Annual Financial Report as a retirement trust fund. The System covers all personnel of City departments included in the City's regular operating budget except for certain sworn employees of the Fire and Police departments. The System also covers the employees of the departments of Airports and Harbor.

The System operates as a single-employer defined benefit plan (the Plan). The City and eligible employees contribute to the System based upon rates recommended by an independent actuary and adopted by the Board. Contributions are invested and applied to benefit payments with accumulated investment earnings.

The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 1997, the System's actuary recommended the rate of 13.19% (including health benefits) as the City's contribution to the plan. Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (Note 5). Members entering subsequent to January 1983 contribute a flat rate of 6%. Members of the System have a vested right to their own contributions and accumulated investment earnings. After five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member with five or more years of service terminates employment, the member has the option of receiving retirement benefits when eligible or withdrawing from the System and having his or her contributions and accumulated investment earnings refunded. Benefits are based upon age, length of service and compensation.

The components of the System's membership were as follows at June 30, 1997:

Active nonvested	3,752
Active vested	18,467
Retired members and beneficiaries	<u>12,698</u>
Total	<u><u>34,917</u></u>

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

Basis of Accounting - The financial statements are maintained on the accrual basis of accounting.

Financial Reporting - The financial statements have been prepared in accordance with generally accepted accounting principles, as outlined in the Governmental Accounting Standards Board (GASB). In fiscal 1997, the System adopted the GASB Statements (GASBS) No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASBS No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*; and GASBS No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. GASBS Nos. 25 and 26 establish new financial reporting standards for the System. GASBS No. 28 establishes accounting and financial reporting standards for securities lending transactions.

GASBS No. 25, *Financial Reporting for Defined Benefit Plans and Notes Disclosures for Defined Contribution Plans*, was adopted by the System on July 1, 1996. GASBS No. 25 establishes reporting and disclosure standards for defined benefit pension plans and for pension trust funds included in the financial reports of plan sponsors. GASBS No. 25 supersedes all previous financial reporting standards allowed for governmental defined benefit plans including GASBS No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*, and Financial Accounting Standards Board Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, previously relied upon by the System. GASBS No. 25 requires a statement of plan net assets, a statement of changes in plan net assets, that investments be carried at fair value with unrealized gains and losses included in the statement of changes in plan net assets, and certain footnote disclosures regarding actuarial methods, contribution requirements and funding progress of the System. The effect of such adoption was not significant to the System.

GASB No. 26 was adopted by the System on July 1, 1996. GASBS No. 26 establishes financial reporting standards for postemployment healthcare plans administered by state and local governmental defined benefit pension plans. It is an interim statement pending completion of the GASB's project on accounting and financial reporting of other postemployment benefits by plans and employers.

In addition to the reporting standards, the statement also establishes certain requirements for plans that elect to provide historical trend information about the funded status of the postemployment healthcare plan and the employer's required contributions to the System, either as supplementary information or an additional financial statement or note. However, presentation of that information is not required.

GASBS No. 28 was adopted by the System on July 1, 1996. GASBS No. 28 establishes accounting and financial reporting standards for securities lending transactions and requires the System to record cash and certain securities received as collateral under securities lending transactions as assets, and liabilities resulting from these transactions in the statement of plan net assets. Revenues from and costs of securities lending transactions, such as borrower rebates and agent fees, are reported as investment income and expenditures, respectively, in the statement of changes in plan net assets. Securities lending activity had previously been disclosed in the footnotes to the financial statements.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

Investments - Funds are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board. The System's investment portfolios are primarily composed of domestic and international equities, domestic bonds, real estate investment funds, and short-term investments that include obligations of the U.S. Treasury, agencies, commercial paper rated A-1, bankers' acceptances, repurchase agreements and the short-term investment fund managed by the System's custodian bank.

Short-term investments, bonds, stocks and alternative investments are reported at fair value in accordance with GASBS No. 25. Real estate investments are recorded in the financial statements under the equity method and are carried at market value. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Management's investment strategy, as it relates to the debt portfolio, is to achieve market appreciation and not hold bonds to their maturities; therefore, premiums and discounts on bonds are not amortized. The fair values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the Board's real estate consultant. The fair value of futures and forward contracts have been determined using available market information.

The Los Angeles City Charter provides that earnings from investments, exclusive of capital gains or losses on investments, shall be credited to member reserve accounts and to City reserve accounts. Realized capital gains and losses on investments are credited solely to the City's reserves.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the balance sheets as receivables and labeled proceeds from sales of investments, and amounts payable for purchases are reported as payables and labeled purchases of investments. Dividend income is recorded on exdividend date, and interest income is accrued as earned.

Fixed Assets - Purchases of fixed assets, mainly furniture and computer equipment, are recorded as expenditures in the year acquired.

Reserves - As provided in the Los Angeles City Charter, the System is maintained on a reserve basis, determined in accordance with accepted actuarial methods. The Los Angeles City Charter establishes reserves for the following:

Plan Member Contributions - Active member contributions to the plan and investment earnings distributions credit to members' accounts, less refunds of members' contributions and transfers to the annuity.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

Employer Contributions - Consist of the following components:

Basic Pensions - City contributions, investment earnings distributions and capital gains accumulated to provide for the City's guaranteed portion of retirement benefits.

Annuity - Member contributions transferred to the City and used to provide for the members' share of retirement benefits and investment earnings distributions, less payments to retired members.

Family Death Benefits - Member contributions, matching City contributions, and investment earnings distributions reserved to pay benefits under the family death benefits insurance plan established by the System.

Health Insurance Benefits - City contributions and investment earnings distributions reserved on an actuarial basis to provide health subsidies for retirees.

Use of Estimates in Preparation of Financial Statements - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

2. FUNDING STATUS AND PROGRESS

The amount shown below as total pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other pension funds. The measure is independent of the actuarial funding method used to determine contributions to the System, as discussed in Note 3. The total pension benefit obligation was determined as part of an actuarial valuation at June 30, 1997. The valuation was performed using the projected unit credit cost method as allowed by the GASB, with an 8% interest earnings assumption, 4% annual total payroll increases, annual individual salary increase assumption which varies by age averaging 4% to 7% per year over a full 30-year career, and a 3% cost-of-living factor on retirement benefit payments. The actuary also conducts a triennial investigation and actuarial valuation to examine noneconomic assumptions and determine the System's funding status.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

The actuarial valuation for unfunded pension benefit obligation at June 30, 1997 was \$83,828,000 as follows (in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$2,598,432
Current employees:	
Accumulated employee contributions	683,048
Employer-financed vested	<u>1,604,857</u>
Total pension benefit obligation	4,886,337
Actuarial value of available plan assets	<u>4,802,509</u>
Unfunded pension benefit obligation	<u>\$ 83,828</u>

For purposes of determining the funding requirements of the System, the actuarial valuation for net assets available for benefits was calculated using an average of cost and market in the prior year. The methodology was changed in the current year to use a market-related method, whereby gains and losses are recognized over a five-year period. Gains and losses represent the difference between actual and expected market values. Expected market values are based on the actuarial return assumption of 8%. The effect of the change was not material to the total pension benefit obligation. For purposes of this report, the net assets available for benefits is stated at cost, which results in a different unfunded pension benefit obligation.

The City is currently actuarially funding retiree health insurance benefits for current retirees and for active members eligible for a retired health insurance subsidy. The liability is determined separately from the pension benefit obligation. The health insurance benefits liability was determined as part of an actuarial valuation at June 30, 1997.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

The actuarial valuation for the unfunded health insurance benefits liability at June 30, 1997 was \$73,900,000.

Health insurance benefits liability:	
Retired members	\$ 301,312
Active members	<u>275,895</u>
 Total health insurance benefits liability	 577,207
 Reserve for health insurance benefits, at cost (actuarial value is \$503,307)	 <u>503,307</u>
 Unfunded health insurance benefits liability	 <u><u>\$ 73,900</u></u>

3. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The System currently uses the projected unit credit cost method to determine the required annual contribution amount. The required annual contribution amount is comprised of two components, (1) normal cost, which is the cost of the portion of the benefit that is earned each year, and (2) the payment to amortize the unfunded actuarial accrued liability (UAAL).

Most of the UAAL is amortized as a level percent of pay over the period ending June 30, 2010. Increases in the UAAL due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years, both as a level percent of pay. Plan amendments are amortized over 30 years as a level percent of pay, unless the characteristics of the amendment dictate a shorter amortization period. Smaller pieces of the UAAL are amortized as a level dollar amount over various periods.

Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation.

The contributions to the System for the years ended June 30, 1997 of \$166,537 million were made in accordance with actuarially determined requirements computed through the above mentioned actuarial valuation.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

Contributions to the System consisted of the following for the year ended at June 30, 1997 (dollars in millions):

	Amount	Percentage of current covered payroll
Covered payroll	<u>\$ 990.60</u>	<u>100.00%</u>
Normal cost	\$ 108.70	10.98%
Amortization of the unfunded actuarial accrued liability	32.70	3.30%
Contribution for retired health insurance benefits	24.70	2.49%
Family death benefits insurance plan	<u>0.40</u>	<u>0.04%</u>
Total	<u>\$ 166.50</u>	<u>16.81%</u>
Total City contribution	\$ 113.20	11.43%
Employee contribution	<u>53.30</u>	<u>5.38%</u>
Total	<u>\$ 166.50</u>	<u>16.81%</u>

4. HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 17 through 19.

5. DEFAYAL OF PORTION OF MEMBER CONTRIBUTIONS

For members prior to February 1983, the City subsidizes a portion of member contributions under a collective bargaining agreement. Payments made by the City in this manner are not refundable to members upon their withdrawal from the plan prior to retirement. Therefore, the City does not have to contribute the total amount of member contributions that it subsidizes.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

The amount payable by the City, based upon the actuarial valuations, was approximately 78% of subsidized member contributions for the year ended June 30, 1997. The City contributed \$20.06 million in this manner for the year ended June 30, 1997.

6. CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS

At June 30, 1997, the market value of investments was as follows (in thousands):

Investment type	Market value	Percentage of total market value
Cash and short-term investments:		
Commercial paper	\$ 184,000	47 %
Bank deposit	54,906	14 %
Collective STIF	13,539	3 %
International STIF	131,724	35 %
Futures initial margin	<u>4,742</u>	1 %
Total cash and short-term investments	<u>388,911</u>	100 %
Securities:		
Fixed income - Domestic:		
Corporate	357,722	5 %
U.S. Government and federal agencies	429,299	6 %
Fixed income - Foreign:		
Corporate	46,666	1 %
Government	271,626	4 %
Stocks:		
Domestic	2,380,172	36 %
Foreign	<u>874,692</u>	13 %
Subtotal	4,360,177	

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

Investment type	Market value	Percentage of total market value
Investments held by broker-dealers under securities loans:		
U.S. government and agency securities	\$ 492,996	7 %
Domestic corporate fixed-income securities	32,856	1 %
International fixed-income securities	67,600	1 %
Domestic stocks	261,580	4 %
Foreign stocks	<u>216,277</u>	3 %
Subtotal	1,071,309	
Securities lent (collateralized value of cash and securities \$1,258,000)		
Securities lending short-term investment pool	1,095,110	16 %
Real estate investment funds	122,572	2 %
Alternative investments	<u>31,056</u>	1 %
Subtotal	<u>1,248,738</u>	
Total investments	<u><u>\$6,680,224</u></u>	

Cash and cash equivalents of \$5,100,245 as of June 30, 1997 represent amounts held in the System's general operating accounts with the City Treasurer. These monies are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable.

Investments held on behalf of the System by the City and the custodian are categorized to give an indication of the level of custodial credit risk assumed by the System at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent, but not in the System's name. At June 30, 1997, substantially all of the System's investments were classified in Category 1.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

7. SECURITIES LENDING AGREEMENT

The System has entered into various short-term arrangements with its custodian, whereby securities are loaned to various brokers. The custodian determines which lenders' accounts to lend securities from by using an impartial sequential system that matches loan requests with various lenders' accounts. All lenders are deemed to have relatively equal opportunity to profit from the lending of securities. Therefore, should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency is allocated pro rata among all lenders.

Minimum collateralization is 102% of market value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government securities and irrevocable bank letters of credit. Cash collateral may be invested separately or pooled in a separate fund for investing in money market or cash equivalent investments.

The borrower has all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify the System as a result of the custodian's failure to: (1) make a reasoned determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action, (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the *Federal Financial Institutions Examination Council Supervisory Policy on Securities Lending*.

These agreements provide for the return of the securities and revenue determined by the type of collateral received (from which the custodian's fee is deducted). The securities on loan to brokers are shown at their market value on the balance sheets.

The market value of securities lent was \$1,095,110,000 as of June 30, 1997 and the collateralized value of cash and securities was \$1,258,000. The System's pro rata share in the collateral pool was 6.1% as of June 30, 1997.

8. FUTURES AND FORWARD CONTRACTS

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures contracts are used for asset allocation purposes, and forward contracts are used to hedge against fluctuation in foreign currency denominated assets and related income. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions are deferred and recognized as income or as adjustments to carrying amounts when the hedged transaction occurs. Gains and losses on futures contracts that do not qualify as hedges are recognized as gains or losses for the current period.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

At June 30, 1997, the System had net outstanding futures and forward commitments with a notional amount of \$619,100,000, which mature through September 1997. These commitments are not recorded in the financial statements. The System maintains margin collateral on the positions with its custodian, consisting of cash and U.S. Treasury Bills. The total collateral margin was \$4.7 million as of June 30, 1997. The realized gain on foreign currency translation was \$1.3 million as of June 30, 1997.

Futures' contracts have little credit risk as organized exchanges are the counterparties. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

9. ADMINISTRATIVE EXPENSES

Administrative expenses of the System for the year ended June 30, 1997 were as follows (in thousands):

Contract services	\$ 2,369
Salaries	1,898
Rent	507
Other administrative expenses	82
	<u>82</u>
	<u>\$ 4,856</u>

10. INVESTMENT EXPENSES

Investment expenses of the System for the year ended June 30, 1997 were as follows (in thousands):

Investment management expense (excluding real estate investment management expense)

Stock manager fees	\$ 9,953
Bond manager fees	2,050
Alternative investment management fee	1,004
Asset allocation advisor	50
	<u>50</u>
	<u>\$ 13,057</u>

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1997 (Continued)

Real estate investment management expense

Real estate investment income	\$ 10,405
Real estate investment management expense	<u>(1,185)</u>
Real estate investment income, net of expense	<u>\$ 9,220</u>

11. OPERATING LEASE

The System leases building facilities under a noncancelable operating lease which expires in 1998, at which time a five-year renewal option is available. This lease also contains provisions for the System to pay its prorated share of subsequent increases in operating costs and taxes over the base rate established during the initial year of the lease.

The future minimum commitment under the lease is \$500,000 for the year ended June 30, 1998. The system is currently in negotiations with its existing building facilities management to provide additional office space and to extend the length of the lease for an additional 10 years.

SUPPLEMENTAL SCHEDULES

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS

Supplemental Schedule of Funding Progress						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial liability (AAL) - Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
June 30, 1992	\$ 3,085,517,616	\$ 3,597,424,573	\$ 511,906,957	85.8 %	\$ 915,343,121	55.9 %
June 30, 1993	3,406,232,239	3,634,196,193	227,963,954	93.7 %	898,116,886	25.4 %
June 30, 1994	3,629,723,739	3,817,841,255	188,117,156	95.1 %	884,950,676	21.3 %
June 30, 1995	3,940,057,106	4,080,765,873	140,708,767	96.6 %	911,292,385	15.4 %
June 30, 1996	4,468,433,499	4,476,024,351	7,590,852	99.8 %	957,422,907	0.8 %
June 30, 1997	4,802,508,841	4,886,336,641	83,827,800	98.3 %	990,616,145	8.5 %

As of June 30, 1987, the System began funding insurance benefits for current retirees and for active members eligible to retire. As of June 30, 1989, a reserve was established for the health insurance benefits liability, and \$146.7 million was transferred to the reserve from the City contributions, based on actuarial estimates. Beginning in fiscal year 1989, the pension benefit obligation and the health insurance benefits liability are separately stated. The schedule of the health insurance benefits liability above will be expanded through experience to the 10-year historical trend data required by GASB Statement No. 25, in conformance with GASB implementation guidelines.

Analysis of dollar amounts of net assets available for benefits, pension benefit obligation and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Over time, analysis of this percentage indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

SUPPLEMENTAL SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE

(Dollars in Millions)

Revenues by Source

Fiscal year	Member contributions	City contributions	Investment income	Subtotal	Gain on investments	Total
1988	\$ 28.1	\$ 126.2	\$ 145.1	\$ 299.4	\$ 27.7	\$ 327.1
1989	32.6	134.0	162.4	329.0	55.7	384.7
1990	37.1	146.4	180.0	363.5	99.4	462.9
1991	41.8	151.3	193.5	386.6	19.6	406.2
1992	43.2	164.9	182.2	390.3	129.2	519.5
1993	42.7	170.6	164.3	377.6	101.5	479.1
1994	42.3	173.6	170.3	386.2	167.1	553.3
1995	43.6	144.6	176.9	365.1	55.4	420.5
1996	47.5	149.0	186.2	382.7	355.0	737.7
1997	53.2	113.2	202.5	369.1	628.3	997.2

Expenses by Type

Fiscal year	Benefits	Administrative and investment expenses	Refunds and transfers	Total
1988	\$ 130.4	\$ 6.2	\$ 6.6	\$ 143.2
1989	141.5	5.9	6.6	154.0
1990	156.0	7.1	7.2	170.3
1991	170.3	8.2	8.6	187.1
1992	184.4	8.7	8.0	201.1
1993	197.0	10.3	6.9	214.2
1994	210.7	11.1	8.5	230.3
1995	221.9	10.2	7.7	239.8
1996	233.1	12.4	8.9	254.4
1997	248.0	19.1	9.4	276.5

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended June 30	Employer Contributions Total	
	Annual required contribution	Percentage contributed
1992	\$138,626,866	100 %
1993	138,258,965	100 %
1994	143,548,618	100 %
1995	115,129,588	100 %
1996	120,660,148	100 %
1997	88,799,922	100 %

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

SUPPLEMENTAL SCHEDULE OF TREND DATA

	SEPP
Valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level dollar supplemental cost
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4% to 7%
Includes inflation at	Varies
Cost-of-living adjustments	3%

INVESTMENT SECTION



LACERS



INVESTMENT SECTION

INVESTMENT ACTIVITIES

The Board reviews the asset allocation plan annually to determine the allocation that best meets the risk/return characteristics to fulfill the Department's mission. The mix of advisors that manage the Fund is then reviewed and adjusted to maintain a portfolio profile that matches the adopted asset allocation plan. This year, three additional managers were required to restructure the portfolio profile:

- an Emerging Markets Equity manager - funded from the EAFE index portfolio;
- an Enhanced Core Domestic Equity manager - funded from the S&P 500 index portfolio;
- an Enhanced Value Domestic Equity manager - funded from the S&P 500 index portfolio.

The Board monitors managers' performance through regular presentations before the Board and quarterly performance reports. Each manager agrees to the guidelines of the structure of their portfolio and the performance benchmarks by which they will be measured. In the case of managers with performance fee contracts, the performance benchmarks are the reference points used to determine their compensation. This year, one long-duration fixed-income manager was terminated as a result of ongoing underperformance. The assets were transferred to a short-duration index portfolio.

The Board also continues to fund private equity investments through real estate and alternative investments. The Board uses commingled funds as the investment vehicle for both asset classes and relies heavily on the specialty consultant in selecting the investments. This year, two commitments were made to alternative investment funds totaling \$30 million, and one was made to a real estate fund for \$7.5 million. Neither asset class is invested at the level of the target allocation.

INVESTMENT POLICIES

All investments must conform to the Investment Policy. The Investment Policy delineates the responsibility of the Board, staff, and the consultant. It addresses the broad goals of each asset class as a component of the Fund and covers the commission recapture and soft dollar guidelines of the Board. This document and the asset allocation plan are reviewed concurrently on an annual basis.



The Investment Policy is supplemented with separate policies for real estate and alternative investments. These subsidiary policies were developed by the specialty consultants because of the unique investment process for real estate and alternative investments.

In addition, as a large institutional shareholder, LACERS recognizes its responsibility to vote proxies. The Board has therefore established a proxy policy. This policy addresses many issues such as executive rights, executive compensation, the selection of corporate boards, and the composition of those boards.



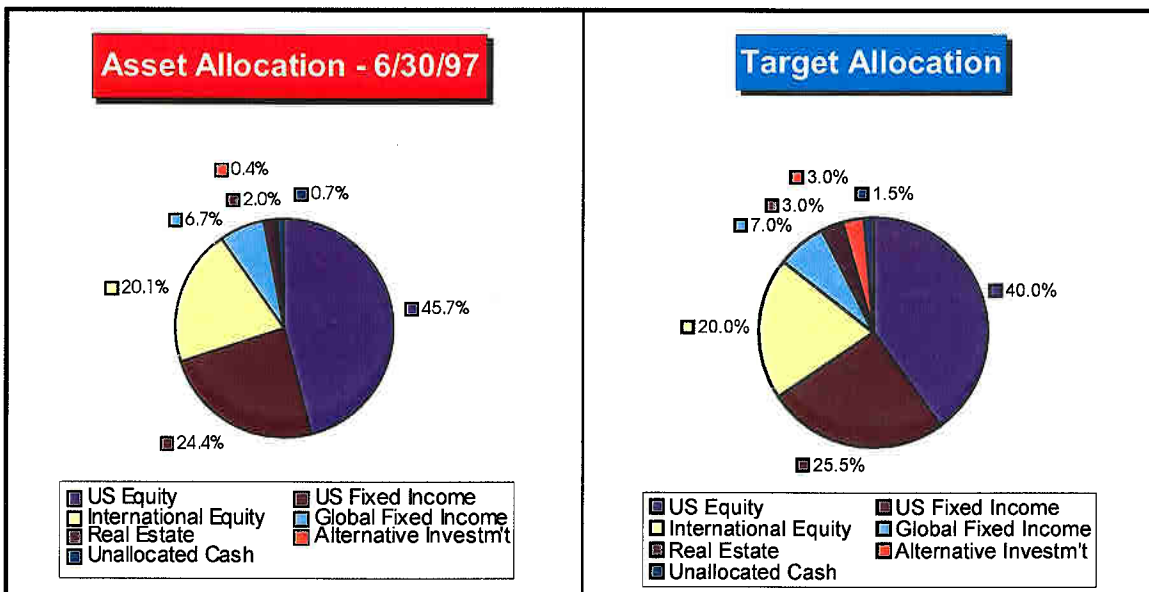
INVESTMENT RESULTS

RETURN SUMMARY (net of fees)	Annualized		
	1 Year	3 Years	5 Years
US Equity	30.2	27.0	18.9
Russell 3000	30.6	27.1	19.2
US Fixed Income	8.1	8.2	7.3
LB Govt / Corp	7.8	8.3	7.2
Intl Equity	13.3	10.2	11.6
MSCI EAFE	12.8	9.1	12.8
Global Fixed Income	11.9	-	-
JPM WGBI (Hedged)	11.1	-	-
Real Estate	10.6	8.0	4.6
NCREIF	9.8	8.3	4.5
Total Fund *	19.4	17.1	13.2
Funds in Excess of \$1 Billion *	20.3	18.1	14.0
Public Funds *	20.55	16.75	13.62

* gross of fees

ASSET ALLOCATION

Actual		Target	
US Equity	45.7%	US Equity	40.0%
US Fixed Income	24.4%	US Fixed Income	25.5%
International Equity	20.1%	International Equity	20.0%
Global Fixed Income	6.7%	Global Fixed Income	7.0%
Real Estate	2.0%	Real Estate	3.0%
Alternative Investment	0.4%	Alternative Investment	3.0%
Unallocated Cash	0.7%	Unallocated Cash	1.5%





Displayed below are the ten largest holdings in each asset class along with their market and share/par values.

DOMESTIC FIXED HOLDINGS

No.	Par Value US \$	Asset Description	Market Value US \$
1.	54,660,000	US Treas 5.0 NT Due 1-31-1998	53,788,720
2.	49,967,000	US Treas BD Due 11-15-2024	52,621,247
3.	40,350,000	US Treas 6.25 NT Due 8-31-2000	39,959,009
4.	34,975,000	US Treas Ser G-1998 8.25 NT Due 7-15-1998	36,259,282
5.	35,900,000	US Treas Ser B 5.75 Due 8-15-2003	34,032,123
6.	30,000,000	US Treas 6.0 NT Due 8-31-1997	30,000,000
7.	29,629,649	FNMA Pool #330086 6.5 Due 1-1-2025	27,833,500
8.	25,425,000	US Treas Ser B-1997 8.625 NT D Due 8-15-1997	26,094,474
9.	26,470,000	US Treas NT 5.125 BD Due 11-30-98	25,808,250
10.	22,220,000	TVA 1989 Ser G 8.625 BD Due 11-15-2025	23,575,198
Total	349,596,649		349,973,803

DOMESTIC EQUITY HOLDINGS

No.	Shares	Asset Description	Market Value US \$
1.	89,300	Intel Corp Cap	12,663,812
2.	122,500	Merck & Co. Inc.	12,533,220
3.	309,800	Everest Reins Hldgs Inc.	12,275,825
4.	84,600	Procter & Gamble Co.	11,949,750
5.	132,200	Intl Business Mach Corp.	11,931,050
6.	110,000	Aetna Inc.	11,261,250
7.	302,400	Amer. Greetings Corp.	11,226,600
8.	260,000	Leggett & Platt Inc.	11,180,000
9.	179,132	SBC Communications Inc.	11,083,793
10.	150,000	ACE Ltd.	11,081,250
Total	1,738,932		117,186,549



INTERNATIONAL FIXED HOLDINGS

No.	Par Value	Asset Description	Market Value US \$
1.	14,400,000	Conversion 9 1/2% Stk 18.42005	27,321,295
2.	166,700,000	Denmark(Kingdom)7% Bds 15/12/04 Dkk1000	26,938,189
3.	36,800,000,000	Italy (Rep of) 10% Nts 1/8/03 Itl 5000000	25,239,847
4.	32,900,000	Germany(Fed Rep)Un 8%BDS 21/1/02 Dem100	21,521,741
5.	11,100,000	Treasury 8 1/2% Stk 2005 Gbp	20,072,970
6.	23,500,000	Can Govt Cdn\$ Ser A79 8.75 Bd Due 12-01-2005	19,799,246
7.	22,900,000	Australia(Cmnwlth)10% Bds 15/10/2002	19,792,541
8.	19,500,000	US Treas Inflation Index 3.375 Nt Due 01-15-2007	19,242,074
9.	152,000,000	Sweden(Kingdom)6% Bds 9/2/05 No1035 Sek	19,209,858
10.	24,700,000	Germany(Fed Rep) 7 1/4% Bds 21/10/02 Dem 100	15,796,207
Total			214,933,967

INTERNATIONAL EQUITY HOLDINGS

No.	Shares	Asset Description	Market Value US \$
1.	1,422	Nippon Tel & Tel Cp Jpy 50000	13,669,492
2.	363,723	HSBC Hldgs HK\$10 (HK Reg)	10,905,680
3.	119,700	Sony Corp Y50	10,450,083
4.	5,955	Novartis Ag Chf20	9,533,882
5.	438,400	Bk of Tokyo-Mitsub Jpy50	8,811,675
6.	844,000	Cheung Kong (Hldgs) HKdo.50	8,334,000
7.	676,300	Sun Hung Kai Prop HKdo.50	8,140,252
8.	243,000	Toyota Motor Corp Jpy50	7,177,663
9.	1,191,559	New World Devel Co HK\$1	7,105,705
10.	44,600	ADR Telecommunicacoes Bras	6,768,050
Total			90,896,482



SCHEDULE OF FEES

Fiscal Year 1997	Assets Under Management	Fees	Average Basis Points
Investment Manager Fees:			
Fixed Income Managers	\$ 1,853,687,896	\$ 2,050,041	11
Equity Managers	3,977,293,773	9,953,200	25
Real Estate Managers	122,571,844	1,184,743	97
Venture Capital Managers	31,056,162	693,555	223
Total Investment Managers' Fees	\$ 5,984,609,675	\$ 13,881,539	232
Other Investment Service Fees:			
Security Lending Fees		\$ 2,258,649	
Investment Consultant Fees		430,835	
Total Other Investment Svc. Fees		\$ 2,689,484	
Grand Total		\$ 16,571,023	

SCHEDULE OF BROKERS COMMISSION

Broker Name	Shares	Commission	\$/Share
Salomon Bros Inc	9,639,137	158,403	0.05
Bear, Stearns, Securities Corp	1,633,946	94,090	0.05
Ernst & Company	1,401,143	83,896	0.05
Jefferies & Company	1,528,708	81,962	0.05
Merill Lynch Pierce Fenner & Smith	1,430,451	80,008	0.05
Morgan Stanley & Co Inc	1,313,649	78,791	0.06
Bernstein, Sanford C. & Co	1,214,900	72,597	0.06
Williams Capital Group	1,219,663	72,006	0.05
Lehman Brothers Inc	1,228,421	71,662	0.06
Goldman Sachs & Company	1,333,522	69,877	0.05
Total	21,943,540	863,292	0.04
Total - Other Brokers	54,237,644	1,378,125	0.03
Grand Total *	76,181,184	2,241,417	0.03

* OTC Brokers excluded because there is no stated commission.


TOTAL SOFT DOLLARS INCOME & EXPENDITURES 1996-1997

Broker Name	Amount	Percent
CITATION (Merrill Lynch)	\$ 2,173.40	2.92%
FIDELITY	3,312.38	4.45%
LEHMAN	25,667.99	34.48%
SALOMON	43,282.82	58.15%
Total Income	\$ 74,436.59	100.00%
Services (Bloomberg, Proxy Monitor, etc)	\$ 31,437.67	42%
Computer Hardware	\$ 42,998.92	58%
Total Expenditure	\$ 74,436.59	100%

COMMISSION RECAPTURE 1996-1997

Broker Name	Amount	Percent
ROCHDALE	\$ 10,313.00	22%
LYNCH, JONES & RYAN	26,138.00	56%
ABEL / NOSER	10,452.75	22%
Total	\$ 46,903.75	100%



INVESTMENT SUMMARY AS OF JUNE 30, 1997				
Type of Investment	Market Value	% of Total M. V.	Domestic Market Value	Foreign Market Value
Fixed Income:				
Government bonds	1,261,521,813	20.91%	922,295,806	339,226,007
Corporate bonds	36,063,202	7.23%	390,578,041	45,485,161
Convertible bonds	1,181,125	0.02%	-	1,181,125
<i>Total fixed income</i>	<u>1,698,766,140</u>	<u>28.16%</u>	<u>1,312,873,848</u>	<u>385,892,293</u>
Equities:				
Common stock:				
Basic industries	481,929,690	7.99%	261,860,842	220,068,848
Capital goods industries	360,640,773	5.98%	206,958,839	153,681,934
Consumer & services	1,109,386,286	18.39%	911,650,657	197,735,629
Energy	206,819,793	3.43%	177,434,749	29,385,044
Financial services	632,293,663	10.48%	458,431,849	173,861,814
Technology	398,046,758	6.60%	323,949,417	74,097,341
Utilities	209,987,374	3.48%	146,560,359	63,427,015
Misc.(Common Fund)	297,575,819	4.93%	154,904,192	142,671,627
Total common stock	<u>3,696,680,156</u>	<u>61.28%</u>	<u>2,641,750,904</u>	<u>1,054,929,252</u>
Preferred stock	32,605,410	0.54%		32,605,410
Convertible preferred stock	2,438,549	0.04%		2,438,549
Rights/warrants	996,098	0.02%	705	995,393
<i>Total equities</i>	<u>3,732,720,214</u>	<u>61.88%</u>	<u>2,641,751,609</u>	<u>1,090,968,605</u>
Real Estate:	<u>122,571,844</u>	<u>2.03%</u>	<u>122,571,844</u>	<u>-</u>
Alternative Investments:				
Acquisitions	13,871,215	0.23%	13,871,215	
Venture capital	1,277,584	0.02%	1,277,584	
Subordinated debt	12,456,000	0.21%	12,456,000	
International acquisitions	3,451,363	0.06%	3,451,363	
<i>Total alternative investments</i>	<u>31,056,162</u>	<u>0.51%</u>	<u>31,056,162</u>	<u>-</u>
Short-term investments:				
Bank deposits	70,115,104	1.16%	54,905,691	15,209,413
Commerc'l paper	184,000,000	3.05%	184,000,000	
Short term bills & notes	4,741,751	0.08%	4,741,751	
Loan	12,592,827	0.21%	12,592,827	
Short term investment funds	124,949,199	2.07%	8,434,409	116,514,790
<i>Total short-term investments</i>	<u>396,398,881</u>	<u>6.57%</u>	<u>264,674,678</u>	<u>131,724,203</u>
Adjustment in Cash	51,164,393	0.85%	48,225,794	2,938,599
Total Fund	<u>6,032,677,634</u>	<u>100%</u>	<u>4,421,153,935</u>	<u>1,611,523,700</u>



CONSULTING SERVICES

INVESTMENT ADVISORS

Equity - Domestic	Real Estate	Alternative Investment
BZW Barclays Global San Francisco, CA	Aldrich, Eastman & Waltch Boston, MA	CGW Southeast Partners, L.P. Atlanta, GA
Chancellor Capital Mgmt., Inc. New York, N.Y.	DLJ Real Estate Capital Partners, L.P. Los Angeles, CA	CVC Capital Partners London, England, U.K.
Dimensional Fund Advisors Santa Monica, CA	Greystone Realty Corporation Greenwich, CT	Golder, Thoma, Cressey and Renner Chicago, IL
Fiduciary Trust International New York, N.Y.	K/B Opportunity Investors New York, NY	Interwest Partners Menlo Park, CA
JP Morgan Investment Mgmt. New York, N.Y.	La Salle Advisors, Ltd. Chicago, IL	KKR 1996 Fund, L.P. New York, NY
Loomis Sayles & Co., Inc. Pasadena, CA	The L & B Group Dallas, TX	Menlo Ventures VII, L.P. Menlo Park, CA
Paradigm Asset Mgmt., Co. New York, NY	The O'Connor Group New York, NY	Oaktree Capital Management Los Angeles, CA
Rhumblin Advisers Boston, MA	RREEF Funds San Francisco, CA	Welsh, Carson & Stowe New York, NY
Thomson, Horstmann & Bryant, Inc. Saddle Brook, NJ	TA Associates Realty Boston, MA	
Valenzuela Capital Mgmt., Inc. New York, NY	TCW Realty Advisors Los Angeles, CA	

Equity - International	Fixed Income - Domestic	Global Fixed Income
Capital Guardian Trust Los Angeles, CA	Lincoln Capital Mgmt. Co. Chicago, IL	Morgan Grenfell Investment New York, NY
Daiwa International Capital New York, NY	Loomis Sayles & Co., Inc. San Francisco, CA	
Schroder Capital Mgmt. New York, NY	Smith, Graham & Co. Houston, TX	Cash & Short-Term
State Street Global Boston, MA	Westmark Realty Advisors Los Angeles, CA	Managed In-House
Templeton International Fort Lauderdale, FL	WR Lazard & Company New York, NY	

Investment Consultants	Custodian
Asset Strategy Consulting Los Angeles, CA	The Northern Trust Company Chicago, IL
The Townsend Group Cleveland, OH	
Pathway Capital Management Irvine, CA	

ACTUARIAL SECTION

LACERS





**THE CITY OF LOS ANGELES
CITY EMPLOYEES'
RETIREMENT SYSTEM**

Actuarial Valuation

As Of June 30, 1997

Revised





Watson Wyatt & Company

Suite 700
15303 Ventura Boulevard
Sherman Oaks, CA 91403-3197

Telephone 818 906 2631
Fax 818 906 2097

December 2, 1997

Board of Administration
City Employees' Retirement System
360 East Second Street, 8th Floor
Los Angeles, California 90012

Members of the Board:

We are pleased to present this actuarial valuation report as of June 30, 1997 of the City Employees' Retirement System.

This report is divided into three parts:

- A. Valuation Summary: This section contains an overview of significant valuation results.
- B. Valuation Detail: This section contains more detailed results of the valuation. Section I contains details of the retirement valuation. Section II contains details of the health subsidy valuation.
- C. Exhibits: This section contains information on plan demographics, plan provisions, and actuarial assumptions used in the valuation.

We appreciate the opportunity to serve the City of Los Angeles and the Board of Administration as actuary for the City Employees' Retirement System.

Sincerely,

A handwritten signature in cursive script, reading 'Sharon A. Peake'.

Sharon A. Peake, FSA
Consulting Actuary

A handwritten signature in cursive script, reading 'Judy C. Ocaya'.

Judy C. Ocaya, FSA
Consulting Actuary

SAP:JCO:MC

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**Actuarial Valuation As Of June 30, 1997
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CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Actuarial Valuation As Of June 30, 1997

Introduction

Officers and employees of the City of Los Angeles and their beneficiaries are entitled to retirement benefits (including disability and survivors' benefits) and health subsidy benefits under Article XXXIV of the Charter of the City of Los Angeles and by related ordinances. This retirement system is known as the City Employees' Retirement System.

This report contains the results of the June 30, 1997 valuation of both the retirement and health subsidy benefits of the Retirement System. It contains our calculations of the annual budget of the System, as provided in Section 506 of the Charter. It also contains disclosure information required by the Government Accounting Standards Board (GASB).

Plan provisions are summarized in Exhibits IV and V. In the past year, the plan "buyback" provisions were amended to allow Members to buy benefits for service at other governmental employers or for military service. These new provisions are reflected in this valuation.

The valuation results were based on the assumptions as outlined in Exhibits VI through IX. Of note are the following economic assumptions:

- 8.0% annual interest
- 4.0% annual total payroll increases
- Annual individual salary increases, which vary by age, averaging 5.5% to 6% per year over a full 30-year career
- 3.0% annual increases in the Consumer Price Index

All actuarial assumptions and methods remain unchanged since the last valuation. There was a change in the method of allocating excess investment earnings between retirement and health subsidy assets which caused an increase in the retirement benefit contribution and a decrease in the health subsidy contribution. The total contribution for all benefits combined was unaffected by this change.

We believe the assumptions and methods used are appropriate for the valuation of the liabilities of the Retirement System at June 30, 1997.

This Valuation Summary contains an overview of our valuation results. More information on these results can be found in the Valuation Detail and Exhibit sections of this report.

A schedule containing all of the significant results of our valuation can be found on the next page.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of Significant Valuation Results				
		June 30, 1997	June 30, 1996	Percent Change
I.	Total Membership			
	A. Active Members	22,219	22,319	-0.4%
	B. Pensioners	12,698	12,242	+3.7%
II.	Salaries at June 30			
	A. Total Annual Payroll	\$990,616,145	\$957,422,907	+3.5%
	B. Average Monthly Salary	\$3,715	\$3,576	+3.9%
III.	Benefits to Current Pensioners and Beneficiaries			
	A. Total Annual Benefits	\$240,692,161	\$219,872,033	+9.5%
	B. Average Monthly Benefit Amount	\$1,580	\$1,497	+5.5%
IV.	Total System Assets (Actuarial Value)	\$5,326,700,106	\$4,774,115,864	+11.6%
V.	Unfunded Actuarial Accrued Liability			
	A. Retirement Benefits	\$83,827,800	\$7,590,852	+1004.3%
	B. Health Subsidy Benefits	\$73,889,152	\$259,142,412	-71.5%
VI.	Budget Items	FY 1998-1999	FY 1997-1998	
	A. Retirement Benefits			
	1. Normal Cost as a Percent of Pay	5.81%	5.64%	+3.0%
	2. Amortization of Unfunded Actuarial Accrued Liability	1.53%	0.87%	+75.9%
	3. Total Retirement Contribution	7.34%	6.51%	+12.7%
	B. Health Subsidy Contribution, as a Percent of Pay	1.49%	3.18%	-53.1%
	C. Total Contribution (A+B)	8.83%	9.69%	-8.9%
VII.	Funded Ratio			
	(Based on Actuarial Value of Assets)			
	A. Retirement Benefits	98.3%	99.8%	-1.5%
	B. Health Subsidy Benefits	87.2%	52.3%	+66.7%
	C. Total	97.1%	94.7%	+2.5%
	(Based on Market Value of Assets)			
	D. Retirement Benefits	112.0%	108.6%	+3.1%
	E. Health Subsidy Benefits	99.4%	56.9%	+74.7%
	F. Total	110.7%	103.0%	+7.5%

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

Budget Requirements

The Charter of the City of Los Angeles requires that budget amounts for the City Employees' Retirement System be determined annually. In determining these amounts, the System currently uses the Projected Unit Credit Cost Method. The required annual contribution is made up of two parts:

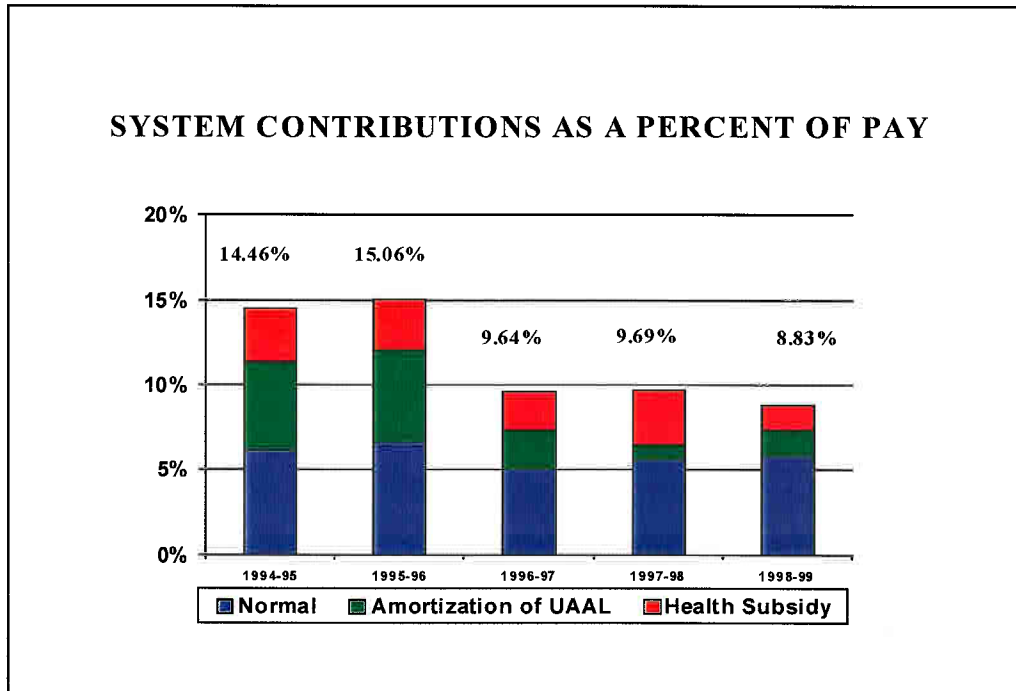
- The Normal Cost, or the cost of the portion of the benefit that is earned each year.
- The payment to amortize the Unfunded Actuarial Accrued Liability (UAAL). Most of the UAAL is amortized as a level percent of pay over the period ending June 30, 2010. Increases in the UAAL due to assumption and method changes are amortized over 30 years and gains and losses are amortized over 15 years, both as a level percent of pay. Plan amendments are amortized over 30 years as a level percent of pay, unless the characteristics of the amendment dictate a shorter amortization period.

Below, we present a summary of budget requirements for the City Employees' Retirement System. In total, the recommended contribution decreased by 0.86% of payroll from last year.

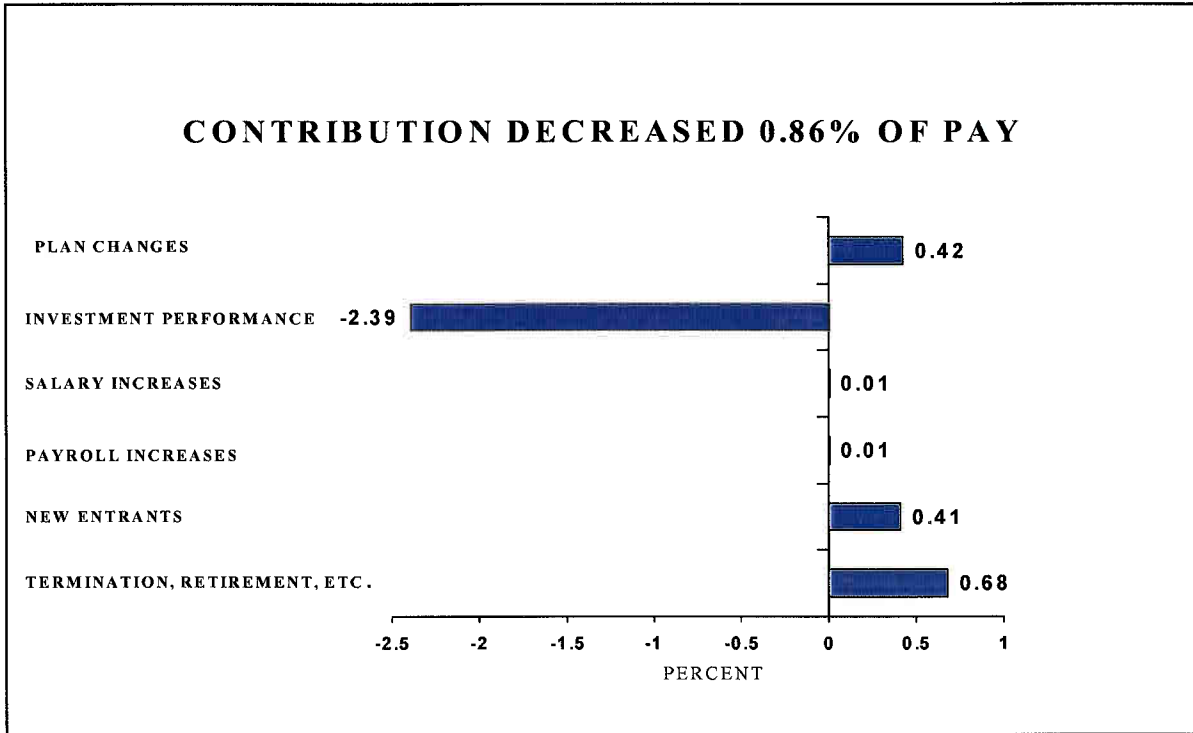
Recommended City Contributions For Fiscal Year 1998 - 1999	
	Percentage of Salary
Contribution for Retirement, Disability, and Death Benefits	7.34%
Contribution for Health Subsidy Benefits	1.49%
Total Contribution	8.83%

A more detailed explanation of these results can be found in the Valuation Detail section of this report.

The following graph illustrates the contribution levels of the past few years for both the retirement benefits and the health subsidy benefits.



The graph below illustrates the effect of changes in plan provisions, changes in valuation method and assumptions, and gains and losses over the past year on the recommended System contribution.



CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

System Assets

The following asset information regarding cash flow, book value and market values was provided to us by the Retirement Office. We have not audited or verified these figures.

	June 30, 1997	June 30, 1996	Percent Change
Total System Assets			
Market Value	\$6,069,797,808	\$5,192,038,000	+16.9%
Book Value	5,153,309,230	4,432,513,431	+16.3%
Actuarial Value	5,326,700,106	4,774,115,864	+11.6%

Rate of Return	
July 1, 1996 - June 30, 1997	
The rate of return on total plan assets was as follows:	
Market Value	19.32%
Book Value	19.09%
Actuarial Value	14.12%
These rates of return were based on the following cash flow information:	
Contributions	
City	\$113,262,396
Members	53,274,812
Pensions Paid	
Retirement Allowances	226,902,682
Family Death Benefits	1,066,838
Health Benefits	20,010,324
Refunds of Member Contributions	9,447,708
Administration Expenses	19,206,089
Investment Earnings	
Realized	830,892,232
Unrealized	156,964,009

The 14.12% rate of return on the actuarial value is greater than the 8.0% rate assumed for the prior year, which resulted in an actuarial gain. The budgeted contribution for the System would have been greater if not for this gain.

More detail on System assets can be found in the Exhibits section of this report.

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Derivation of Actuarial Value of Assets

	YEAR ENDING			
	June 30, 1997	June 30, 1996	June 30, 1995	June 30, 1994
1. Beginning of Year Market Value	\$5,192,038,000	\$4,458,509,000	\$3,996,980,000	\$3,846,821,000
2. Contributions	166,537,208	196,548,903	188,132,339	215,921,473
3. Benefit Payments	257,427,552	241,947,677	229,596,515	219,198,961
4. Expected Return Based on 8% Assumption	411,727,427	354,864,769	318,099,833	307,614,580
5. Expected End of Year Market Value (1)+(2)-(3)+(4)	5,512,875,083	4,767,974,995	4,273,615,657	4,151,158,092
6. Actual End of Year Market Value	6,069,797,808	5,192,038,000	4,458,509,000	3,996,980,000
7. Gain/(Loss)	556,922,725	424,063,005	184,893,343	(154,178,092)

1. Market Value at June 30, 1997	\$6,069,797,808
1997 (Gain)/Loss x 80%	(445,538,180)
1996 (Gain)/Loss x 60%	(254,437,803)
1995 (Gain)/Loss x 40%	(73,957,337)
1994 (Gain)/Loss x 20%	<u>30,835,618</u>
2. Actuarial Value at June 30, 1997	5,326,700,106
3. 80% of Market Value at June 30, 1997	4,855,838,246
4. 120% of Market Value at June 30, 1997	7,283,757,370
5. Actuarial Value at June 30, 1997 (2), but no less than (3) and no more than (4)	\$5,326,700,106

The actuarial value of assets is a market-related value, where gains and losses are recognized over a 5-year period. Gains and losses represent the difference between actual and expected market values. Expected market values are based on the actuarial return assumption of 8%.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of System Funding

As of June 30, 1997, the System had assets at actuarial value equal to 97.1% of the present value of retirement and health subsidy benefits accrued to that date. When compared to the present value of all benefits expected to be paid by the System (including benefits expected to be earned in the future), assets equal 75.7% of liabilities. This remaining unfunded liability is to be funded by future City and Member contributions to the System.

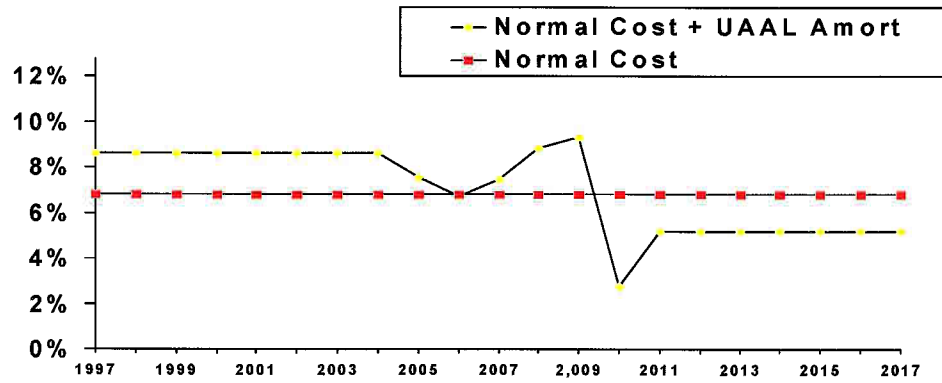
The City contributions are made up of two parts:

- Normal Cost Contributions: These contributions are determined as the cost of the System benefits accruing each year. If all assumptions are realized and there are no gains or losses, this amount will remain unchanged as a percent of pay unless the average age of the population increases. In this case, contributions as a percent of pay will increase. The contributions will also increase as a dollar amount as total covered payroll increases.
- Funding of Unfunded Actuarial Accrued Liability (UAAL): The UAAL represents liabilities accrued to date, that have not been funded by prior years' normal costs. Most of the UAAL is funded as a level percent of payroll until the year 2010. Increases in the UAAL due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years, both as a level percent of pay. Plan amendments are amortized over 30 years as a level percent of pay, unless the characteristics of the amendment dictate a shorter amortization period. If in the future all assumptions are realized and if there are no future gains or losses, the current contribution percentage will not change until the pieces that make up the UAAL are fully amortized. However, it will increase as a dollar amount as the total covered payroll increases.

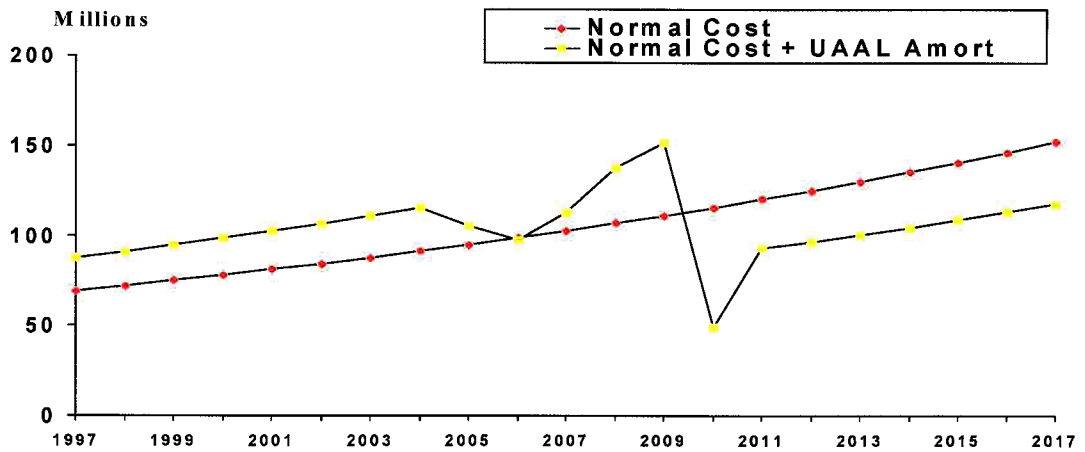
The total contribution will be the sum of the Normal Cost and UAAL contributions.

The following graphs are an illustration of expected future contribution levels. These contribution levels are based on the current Charter provisions and assume no future gains or losses. They are also based on our assumption of 4.0% annual increase in total System payroll, and a population with the same average age and service characteristics as the current population. If actual experience differs from these assumptions, the contribution levels will change.

**CONTRIBUTIONS ARE INITIALLY LEVEL
AS A PERCENT OF PAY**



**DOLLAR CONTRIBUTIONS INCREASE
AS PAYROLL INCREASES**



CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

System Membership

Computer tapes containing data on System membership as of June 30, 1997 were supplied to us by the Retirement Office. On the following schedule we present a summary of System membership at June 30, 1997 and June 30, 1996. Pension amounts shown do not include the cost-of-living adjustments that were effective on July 1, 1997. All July 1 increases were reflected in our valuation calculations.

It was necessary to make assumptions for less than 0.1% of the data records where the information given to us was unreasonable or incomplete. These assumptions did not materially affect the results of our valuation.

The number of total active Members decreased by 0.4% since the last valuation. The total number of retired Members and their beneficiaries increased by 3.7%, while the average retirement benefit amount increased by 5.5%.

More detail on System membership, including breakdowns by age and service categories, can be found in Exhibits XI, XII, and XIII of this report.

System Membership			
	June 30, 1997	June 30, 1996	Percent Change
I. Active Members			
a. Number	22,219	22,319	-0.4%
b. Average Age	44.2	43.9	+0.7%
c. Average Years of Service	12.9	12.5	+3.2%
d. Salary			
i) Total Annual Salary	\$990,616,145	\$957,422,907	+3.5%
ii) Average Monthly Salary	\$3,715	\$3,575	+3.9%
II. Pensioners and Beneficiaries			
a. Number	12,698	12,242	+3.7%
b. Average Age	71.5	71.6	-0.1%
c. Allowance			
i) Total Annual Allowance	\$240,692,161	\$219,872,033	+9.5%
ii) Average Monthly Amount	\$1,580	\$1,497	+5.5%

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

Applicable Assets At June 30, 1997

Assets available to pay pension benefits are determined by deducting certain reserves from the total actuarial value of assets amount.

	Book Value	Market Value	Actuarial Value
1. Total Value of Assets at June 30, 1997	\$5,153,309,230	\$6,069,797,808	\$5,326,700,106
2. Less Reserves and Liabilities Established for:			
a. Family Death Benefit Insurance	20,204,602	23,797,884	20,884,417
b. Retiree Health Subsidy	<u>486,923,569</u>	<u>573,520,330</u>	<u>503,306,848</u>
c. Total	507,128,171	597,318,214	524,191,265
3. Net Assets Available for Retirement Benefits at June 30, 1997 (Item 1 less Item 2)	\$4,646,181,059	\$5,472,479,594	\$4,802,508,841

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

VALUATION OF RETIREMENT BENEFITS

Actuarial Balance Sheet

The purpose of the Actuarial Balance Sheet is to compare System assets with System liabilities in order to define the portion of the liabilities which need to be funded by the City in the future. The Balance Sheet information in the next two pages represents assets and liabilities for retirement benefits only.

System liabilities equal the present value of all future benefits expected to be paid to current and future retirees and beneficiaries of the System.

For the purpose of the Actuarial Balance Sheet, system assets are equal to the sum of:

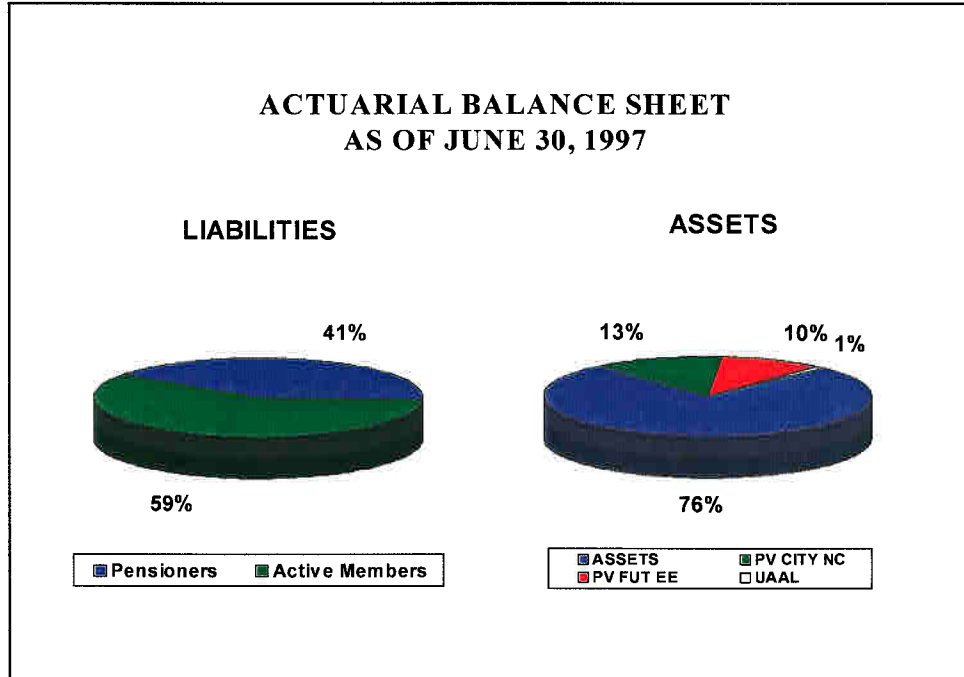
- the assets currently available to pay benefits,
- the present value of future contributions expected to be made by current System Members, and
- the present value of future contributions expected to be made by the City.

The last item, the present value of future City contributions, is made up of two parts:

1. **The Present Value of Future City Normal Costs:** Using the Projected Unit Credit Cost Method, the City budgets a certain percentage of payroll to fund benefits for System Members. The Normal Cost is the cost of benefits earned in each year. Normal Cost is funded from a Member's date of employment to the average expected retirement date. An adjustment is made for the deductions which will be made from the salaries of System Members. For the 1998-1999 fiscal year, the normal cost percentage is 5.81% of pay. The present value of these future City Normal Cost contributions represents one piece of the value of future City contributions.
2. **The Unfunded Actuarial Accrued Liability:** The portion of the present value of future City contributions which will not be funded by the future Normal Cost contributions is the Unfunded Actuarial Accrued Liability (UAAL). The UAAL arises from prior contributions that were less than the current Normal Cost percentage. This usually results from benefit or assumption changes and the net effect of prior gains and losses. If the City had always contributed the current Normal Cost, if there were no prior benefit or assumption changes and if actual experience exactly matched the actuarial assumptions, the Normal Cost would be sufficient to fund all benefits and there would be no UAAL. This liability is funded based on the provisions of the City Charter.

The Actuarial Balance Sheet can be found on the following pages.

The following chart illustrates the breakdown of Balance Sheet assets and liabilities of the retirement benefits of the System. It shows that about 41% of the System's liabilities are for retired Members and their beneficiaries and 59% are for active Members. About 76% of the System's assets consist of currently available assets with 24% consisting of future contributions from the City and the Members.



**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

VALUATION OF RETIREMENT BENEFITS

Actuarial Balance Sheet As Of June 30, 1997

ASSETS		
1. Applicable Assets		\$4,802,508,841
2. Present Value of Future Member Contributions		\$605,035,236
3. Present Value of Future Contributions by the City For:		
a. Normal Cost	\$841,671,087	
b. Amortization of Certain Liabilities	83,827,800	
c. Total		\$925,498,887
4. Total Assets		\$6,333,042,964
LIABILITIES		
5. Present Value of Benefits Already Granted (Inactive Members)		\$2,598,432,150
6. Present Value of Benefits to be Granted (Active Members)		3,734,610,814
7. Total Liabilities		\$6,333,042,964

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

VALUATION OF RETIREMENT BENEFITS

Budget And Recommended Contributions

Section 506 of the City Charter requires that an annual budget be prepared which sets forth the estimated cost of maintaining the retirement fund on a reserve basis.

The Charter defines the annual budget amount to be the sum of the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and Actuarial Accrued Liability are currently calculated using the Projected Unit Credit Cost Method.

The Normal Cost is the cost of the System benefits earned each year. The Normal Cost consists of two parts: the first part, which is funded by Member contributions, is a specified percentage of the Member's pay; the second part, which is funded by the City, is the balance after deducting the Member paid portion from the total Normal Cost percentage.

The amortization of the UAAL is the payment stream required to fund the excess of System liabilities over the sum of the System assets, future Member contributions, and future City Normal Cost contributions. (See section on the Actuarial Balance Sheet.) The method of amortization is defined in the Charter.

The recommended retirement contribution increased primarily due to a change in the asset earnings allocation. In 1996-1997, the System decided to shift some of the excess investment earnings from the retirement assets to those reserved for the health subsidy. While there was still an asset gain of \$75 million on retirement assets, the gain would have been larger if not for this shift.

In our opinion, if the recommended contributions included in this report are adopted, the System will be maintained in compliance with the Charter of the City of Los Angeles and in accordance with the methods and assumptions underlying the calculations.

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
VALUATION OF RETIREMENT BENEFITS**

Recommended City Contributions For Fiscal Year 1998 - 1999	
	Percentage of Salary
For Retirement Benefits	
Normal Cost	5.81%
Unfunded Actuarial Accrued Liability	1.53%
Total Contributions for Retirement Benefits	7.34%

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

VALUATION OF RETIREMENT BENEFITS

**Detail of Amortization of Unfunded
Actuarial Accrued Liability**

Item	Remaining Years	Balance to be Amortized 06/30/97	Amortization Amount	Percentage of Salary
1. Change in Asset Valuation Method at 06/30/89	22	(126,377,928)	(8,617,084)	(.87%)
2. Change in Assumptions at 06/30/89	22	(123,162,306)	(8,397,826)	(.85%)
3. Ad Hoc COLA Increase at 12/01/89	8	19,883,794	2,934,564	.30%
4. Actuarial (Gain)/Loss at 06/30/90	8	2,744,281	405,017	.04%
5. Actuarial (Gain)/Loss at 06/30/91	9	7,134,512	952,827	.10%
6. Actuarial (Gain)/Loss at 06/30/92	10	(35,304,803)	(4,319,490)	(.44%)
7. Change in Assumptions at 06/30/93	26	(204,025,389)	(12,552,252)	(1.27%)
8. Actuarial (Gain)/Loss at 06/30/93	11	(106,778,158)	(12,087,704)	(1.22%)
9. Actuarial (Gain)/Loss at 06/30/94	12	(11,599,644)	(1,224,959)	(0.12%)
10. Actuarial (Gain)/Loss at 06/30/95	13	(22,309,964)	(2,212,927)	(0.22%)
11. Actuarial (Gain)/Loss at 06/30/96	14	(237,548,953)	(22,260,707)	(2.25%)
12. Plan Amendment at 06/30/96	29	39,600,065	2,289,371	0.23%
13. Change in Assumption at 06/30/96	29	64,633,415	3,736,607	0.38%
14. Change in Asset Valuation Method at 06/30/96	29	38,771,784	2,241,486	0.23%
15. Plan Amendment at 6/30/97	30	65,407,475	3,712,184	0.37%
16. Actuarial (Gain)/Loss at 6/30/97	15	21,841,630	1,943,386	0.20%
17. Remaining UAAL	13	690,917,989	68,532,205	6.92%
Total		\$83,827,800	\$15,074,698	1.53%

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

Funded Status and GASB Disclosure

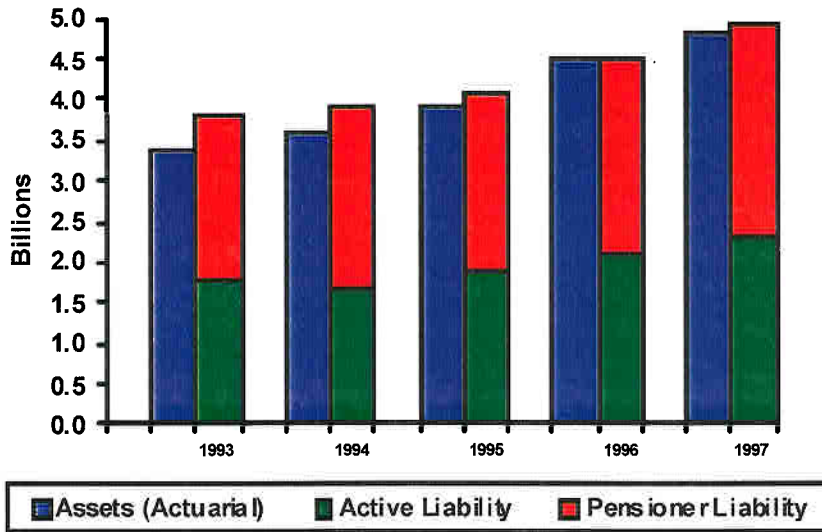
In November 1994, the Governmental Accounting Standards Board (GASB) adopted Statement No. 25, changing the way in which governmental retirement systems must report financial information. This replaces the requirements of GASB No. 5. While released in 1994, the statement allowed plans to delay the effective date until reporting for plan years beginning after June 15, 1996. This statement applies only to retirement benefits paid by the System.

This report includes two new tables showing information required to be reported under GASB No. 25. The first table shows a six-year history of funding progress (a comparison of Actuarial Assets with the Actuarial Accrued Liability, and a comparison of UAAL with compensation). This table shows significant funding progress over the last six years.

The second table shows the Annual Required Contribution (ARC) as computed under GASB No. 25, and it shows what percent of this amount was actually received. The current method used for determining CERS contributions satisfies the GASB requirements. As long as actual contributions are made in accordance with the actuarially recommended rates, the "Percentage Contributed" shown on this table will always be 100%. Otherwise, additional financial disclosures will be necessary.

The graph on the next page compares assets to liabilities for retirement benefits only for the last five years. Actuarial assets exceed liabilities for pensioners, and are 98.3% of total retirement liabilities at June 30, 1997. Based on the market value of assets, the funded ratio for retirement benefits is 112.0%.

FUNDED STATUS OF RETIREMENT BENEFITS 1993-1997



**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**GASB No. 25 Disclosure
Schedule of Funding Progress
Retirement Benefits**

Valuation Date (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (3)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Payroll (4)/(6) (7)
June 30, 1992	\$3,085,517,616	\$3,597,424,573	\$511,906,957	85.8%	\$915,343,121	55.9%
June 30, 1993	3,406,232,239	3,634,196,193	227,963,954	93.7%	898,116,886	25.4%
June 30, 1994	3,629,723,739	3,817,841,255	188,117,516	95.1%	884,950,676	21.3%
June 30, 1995	3,940,057,106	4,080,765,873	140,708,767	96.6%	911,292,385	15.4%
June 30, 1996	4,468,433,499	4,476,024,351	7,590,852	99.8%	957,422,907	0.8%
June 30, 1997	4,802,508,841	4,886,336,641	83,827,800	98.3%	990,616,145	8.5%

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

**GASB No. 25 Disclosure
Schedule of Employer Contributions
Retirement Benefits**

Fiscal Year Ending	Annual Required Contribution	Percentage Contributed
(1)	(2)	(3)
1992	\$138,626,866	100%
1993	138,258,965	100%
1994	143,548,618	100%
1995	115,129,588	100%
1996	120,660,148	100%
1997	88,799,922	100%

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

VALUATION OF RETIREMENT BENEFITS

Member Contributions

Members contribute to the Retirement System based on schedules contained in the City Administrative Code. For Members commencing participation before February 1, 1983, different contribution rate schedules apply to different groups because of various collective bargaining agreements. For purposes of this valuation, we have assumed that the contribution rates for these Members correspond to those effective on July 1, 1981. These contribution rates can be found in Exhibit X.

If certain Members from this group contribute at a lower rate through a collective bargaining agreement, the City should contribute 85% of the amount that would have been contributed by Members without the bargaining agreements. This percentage reflects the fact that certain participants will terminate when only eligible for a return of their contributions. The City does not need to contribute the amounts that are expected to be refunded after the Members' termination.

In the prior valuation report, it was recommended that 84% of the defrayed amount be contributed. This percentage generally increases with the aging of the group affected by the defrayal, and as the probability that these Members will terminate and get a refund of contributions decreases.

For Members commencing participation after February 1, 1983, the contribution rate is 6%.

CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
VALUATION OF RETIREMENT BENEFITS

Family Death Benefit Insurance Plan

Section 511.1 of the City Charter establishes the Family Death Benefit Insurance Plan. This Plan provides protection for the families of Members who die before becoming eligible for service retirement. The benefits provided by the Plan are similar to those provided to survivors under Social Security. Members are eligible for dependent benefits after 18 months of participation in the Family Death Benefit Plan. They are eligible for surviving spouse benefits after ten years of participation in the Plan.

These benefits were updated in 1996 to reflect recent increases in Social Security levels.

Currently, the City and Members share the cost of the Plan. Each contributes \$2.90 per month. After reviewing the assets and liabilities of the plan as of June 30, 1997, we recommend that this contribution rate be continued for the next two years.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

VALUATION OF HEALTH SUBSIDY BENEFITS

Introduction

Division 4, Chapter 11 of the Administrative Code provides that a health insurance subsidy be paid to retired Members of the City Employees' Retirement System. This subsidy is a monthly payment which retirees apply to the cost of health insurance. Retirees can select among a variety of plans sponsored by the City. In general, Members are eligible for subsidy at retirement after age 55 with 10 years of service, or retirement at age 70 (if it was compulsory). Exhibit V summarizes the provisions of the Health Insurance Premium Subsidy.

The System is building a reserve through the advance funding of the health insurance subsidy for current retirees and for active Members with sufficient service to receive a health subsidy (ten years). The actuarial value of the reserve available at June 30, 1997 is \$503,306,848. The City provides the book value of the health subsidy reserve, which we use along with estimates of the market value, to determine the actuarial value used in funding calculations.

This section of the report contains the results of the June 30, 1997 valuation of the retiree health insurance premium subsidy. In determining the budget amounts for the fiscal year 1998-1999, we have used the same funding method and methods of amortization used in the funding of the retirement benefits. We have also used the same economic and demographic assumptions as those used in the retirement valuation. In addition, special health cost trend assumptions were used. A summary of the economic assumptions follows:

- 8.0% annual interest
- graded medical cost rates of 8.5% in 1997-1998, decreasing gradually to 6.0% in 2008 and beyond for benefits paid before age 65, and rates of 8.25% in 1997-1998 decreasing to 6.0% in 2006 and beyond for benefits paid after age 65.
- graded dental rates of 8.5% in 1997-1998 decreasing to 6.0% in 2007 and beyond.

We believe these are appropriate for use in the valuation of health subsidy liabilities of the City Employees' Retirement System at June 30, 1997. These assumptions are described in more detail in Exhibit VII.

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

VALUATION OF HEALTH SUBSIDY BENEFITS

Actuarial Balance Sheet

The purpose of the Actuarial Balance Sheet is to compare System assets with System liabilities in order to define the portion of the liabilities which need to be funded by the City in the future. The Balance Sheet information in the next two pages represents assets and liabilities for health subsidy benefits only.

System liabilities equal the present value of all future health subsidy benefits expected to be paid to current and future retirees and beneficiaries of the System.

For the purpose of the Actuarial Balance Sheet for health subsidy benefits, System assets are equal to the sum of:

- the assets currently available to pay benefits,
- the present value of future contributions expected to be made by the City.

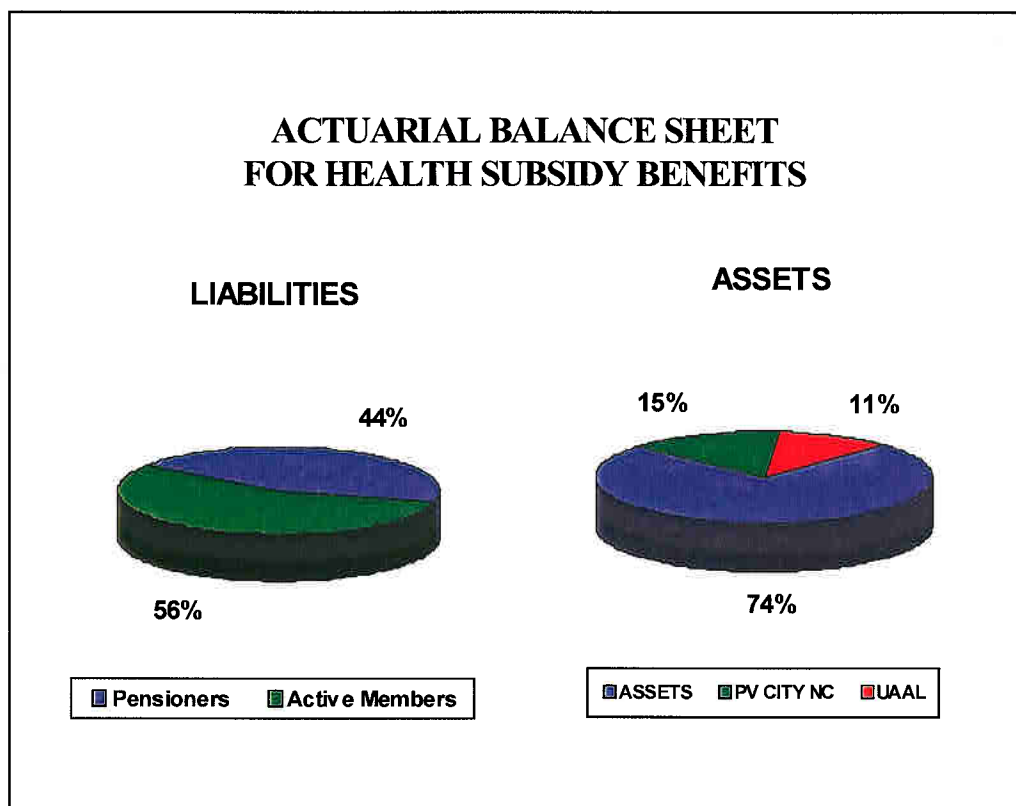
No Member contributions are required for health subsidy benefits.

The last item, the present value of future City contributions, is made up of two parts:

1. The Present Value of Future City Normal Costs: Using the Projected Unit Credit Cost Method, the City budgets a certain percentage of payroll to fund benefits for System Members. The Normal Cost is the cost of benefits earned in each year. Normal Cost is funded from a Member's date of employment to the average expected retirement date. For the 1998-1999 fiscal year, the normal cost percentage for health subsidy benefits is 1.19% of pay. The present value of these future City Normal Cost contributions represents one piece of the value of future City contributions.
2. The Unfunded Actuarial Accrued Liability: The portion of the present value of future City contributions which will not be funded by the future Normal Cost contributions is the Unfunded Actuarial Accrued Liability (UAAL). The UAAL arises from prior contributions that were less than the current Normal Cost percentage. This usually results from benefit or assumption changes and the net effect of prior gains and losses. If the City had always contributed the current Normal Cost, if there were no prior benefit or assumption changes and if actual experience exactly matched the actuarial assumptions, the Normal Cost would be sufficient to fund all health subsidy benefits and there would be no UAAL. This liability is funded based on the provisions of the City Charter.

The Actuarial Balance Sheet can be found on the following pages.

The following chart illustrates the breakdown of Balance Sheet assets and liabilities of the health subsidy benefits of the System. It shows that about 44% of the System's liabilities are for retired Members and their beneficiaries and 56% are for active Members with ten or more years of service. About 74% of the System's assets consist of currently available assets with 26% consisting of future contributions from the City.



**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM**

VALUATION OF HEALTH SUBSIDY BENEFITS

Actuarial Balance Sheet As Of June 30, 1997

ASSETS		
1. Applicable Assets		\$503,306,848
2. Present Value of Future Member Contributions		0
3. Present Value of Future Contributions by the City:		
a. Normal Costs	\$ 101,594,690	
b. Amortization of Certain Liabilities	73,889,152	
c. Total		\$175,483,842
4. Total Assets		\$678,790,690
LIABILITIES		
5. Present Value of Benefits Already Granted (Inactive Members)		\$301,312,000
6. Present Value of Benefits to be Granted (Active Members With Ten or More Years of Service)		377,478,690
7. Total Liabilities		\$678,790,690

CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

VALUATION OF HEALTH SUBSIDY BENEFITS

Recommended City Contribution For Fiscal Year 1998-1999

Under Division 4, Chapter 11 of the Administration Code, certain retired employees are eligible for a health insurance premium subsidy. This subsidy is to be funded entirely by the City Employees' Retirement System.

Based on the actuarial value for this reserve, we have calculated the required funding amount for the fiscal year beginning in 1998.

The contribution for health subsidy benefits decreased from 3.18% of payroll for 1997-1998 to 1.49% of payroll for 1998-1999. This was primarily due to significant asset gains which were allocated to the reserves for these health subsidy benefits. These gains were shifted from the assets available for retirement benefits.

Recommended City Contributions For Fiscal Year 1998 - 1999	
	Percentage of Salary
For Health Subsidy Benefits	
Normal Cost	1.19%
Unfunded Actuarial Accrued Liability	0.30%
Total Contributions for Health Subsidy Benefits	1.49%

**CITY OF LOS ANGELES
CITY EMPLOYEES' RETIREMENT SYSTEM
VALUATION OF HEALTH SUBSIDY BENEFITS**

Detail of Amortization of Unfunded Actuarial Accrued Liability

Item	Remaining Years	Balance to be Amortized 06/30/97	Amortization Amount	Percentage of Salary
1. Initial Base as a Level Percent of Pay through 06/30/2010	13	\$31,924,097	\$3,166,553	.32%
2. Actuarial (Gain)/Loss at 06/30/90	8	47,911,793	7,071,097	.71%
3. Change in Assumptions at 06/30/89	22	25,002,989	1,704,830	.17%
4. Change in Funding Method 06/30/89	22	156,006,591	10,637,315	1.07%
5. Actuarial (Gain)/Loss at 06/30/91	9	56,683,580	7,570,192	.76%
6. Change in Assumptions at 06/30/92	25	14,320,398	901,831	.09%
7. Actuarial (Gain)/Loss at 06/30/92	10	(26,177,574)	(3,202,787)	(.32%)
8. Change in Assumptions 06/30/93	26	(22,625,471)	(1,391,987)	(.14%)
9. Actuarial (Gain)/Loss at 06/30/93	11	(10,445,997)	(1,182,528)	(.12%)
10. Actuarial (Gain)/Loss at 06/30/94	12	(37,726,372)	(3,984,026)	(.40%)
11. Actuarial (Gain)/Loss at 06/30/95	13	(43,927,958)	(4,357,217)	(.44%)
12. Change in Assumptions at 06/30/95	28	(16,268,618)	(959,085)	(.10%)
13. Actuarial (Gain)/Loss at 06/30/96	14	(21,144,870)	(1,981,485)	(.20%)
14. Plan Amendment at 06/30/ 96	29	170,657,196	9,866,086	1.00%
15. Change in Assumptions at 06/30/96	29	(59,570,027)	(3,443,881)	(.35%)
16. Change in Asset Valuation Method at 06/30/96	29	2,383,243	137,781	.01%
17. Plan Amendment at 06/30/97	30	7,860,892	446,143	.05%
18. Actuarial (Gain)/Loss at 06/30/97	15	(200,974,740)	(17,881,978)	(1.81%)
Total		\$73,889,152	\$3,166,854	.30%

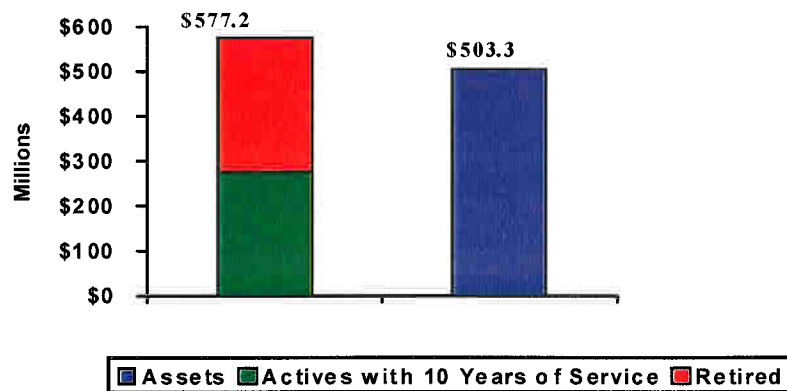
CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM VALUATION OF HEALTH SUBSIDY BENEFITS

Funded Status of Health Subsidy Benefits At June 30, 1997

This information is calculated using GASB guidelines. These figures do not include assets or liabilities of the retirement benefits of the System.

Present Value of Health Subsidy Benefits Accrued to June 30, 1997	
- Retired Members	\$301,312,000
- Active Members with Ten Years of Service	<u>275,884,000</u>
- Total	\$577,196,000
Value of Assets Available for Health Subsidy Benefits	
Market	\$573,520,330
Actuarial	\$503,306,848
Funded Ratio	
Market	99.4%
Actuarial	87.2%

FUNDED STATUS OF HEALTH SUBSIDY BENEFITS AS OF JUNE 30, 1997



CITY OF LOS ANGELES

CITY EMPLOYEES' RETIREMENT SYSTEM

VALUATION OF HEALTH SUBSIDY BENEFITS

Assumptions And Methods

The City is in the process of advance funding for the Health Insurance Premium Subsidy. A brief summary of this funding process is as follows.

The City began funding for these benefits when the health subsidy plan was first initiated, by commencing funding when a Member retired. However, this funding was limited below the actual cost, since the contributions were determined by recognizing only 3% annual increases in the subsidy due to medical trend.

Beginning in 1987, the assumption for annual increases in the health insurance subsidy benefits was increased to 8% per year. Also, the City began advance funding for active Members who are eligible to retire.

Following the June 30, 1989 Study of Plan Experience, in order to fully reflect the cost of benefits due to expected inflation, the 8% medical trend rate assumption was changed to a series of medical trend rates that graded down from 15% in 1991 to 7% in 2002 and thereafter. The City also began advance funding for active members with sufficient service to receive a health subsidy (10 years).

Effective with the June 30, 1992 Study of Plan Experience, the medical and dental trend rates were updated. Separate rates were used for pre- and post-age 65 benefits to reflect the differences in cost increases after Medicare eligibility. Effective with the June 30, 1993 valuation, the ultimate trend rate has been reduced from 7% to 6% to better reflect our expectations of future medical inflation and utilization.

Effective with the June 30, 1995 Study of Plan Experience, the medical and dental trend rates were again updated due to favorable expectations of experience under the Plan. Further reduction in the rates were assumed effective June 30, 1996. While the ultimate trend rate was kept, the trend rates for the immediate future have been reduced. For details on these new trend rates, refer to Exhibit VII.

In valuing the liabilities of the health subsidy, we projected future cash flows by applying medical trend rates to current subsidy amounts. The current average monthly claim rates we used as the starting point for our projections depend on the experience of the plan and plan provisions. These rates are summarized in Exhibit VIII. To determine the present value of future health insurance subsidy benefits, we discounted future cash flows to June 30, 1997 using a valuation rate of 8%.

For the purpose of determining contributions, we have used the Projected Unit Credit Funding Method. Our assumptions and methods are described further in Exhibit VII.

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Exhibits Table of Contents

Exhibit I:	System Assets (Book Value)
Exhibit II:	Statement of Reserve and Fund Balance Accounts
Exhibit III:	Statement of Changes in Net Assets Available for Plan Benefits
Exhibit IV:	Summary of Retirement Benefits
Exhibit V:	Summary of Health Subsidy Benefits
Exhibit VI:	Summary of Actuarial Assumptions and Methods Used for Valuation of Retirement Benefits
Exhibit VII:	Summary of Actuarial Assumptions and Methods Used for Valuation of Health Subsidy Benefits
Exhibit VIII:	Average Monthly Claim Rates for Health Subsidy Benefits
Exhibit IX:	Rates of Separation from Active Service
Exhibit X:	Member Contributions
Exhibit XI:	Age/Service/Salary Distribution as of June 30, 1997 for Active Members
Exhibit XII:	Age/Benefit Distribution of Pensioners as of June 30, 1997
Exhibit XIII:	Age/Average Monthly Health Subsidy Distribution as of June 30, 1997

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

System Assets (Book Value)		
	June 30, 1997	June 30, 1996
ASSETS		
Cash	\$5,105,246	\$296,657
Receivable		
Accrued Interest and Dividend Income	35,696,000	35,337,729
Other Receivable	4,649,971	7,154,074
Proceeds from Investment	<u>101,336,827</u>	<u>34,558,157</u>
Total Receivable	141,682,798	77,049,960
Investments		
Temporary, at Cost	383,405,501	383,546,927
Bonds, at Amortized Cost	1,700,966,501	1,511,015,933
Common Stocks, at Cost	2,822,350,202	2,379,901,527
Real Estate	115,379,017	128,465,008
Alternative Investment, at Cost	30,330,616	9,650,000
Security Lending Collateral, at Cost	<u>1,239,000,000</u>	<u>0</u>
Total Investments	6,291,431,837	4,412,579,396
Total Assets	6,438,219,881	4,489,926,013
LIABILITIES		
Accounts Payable and Accrued Expenses	(1,284,910,651)	(57,412,582)
NET ASSETS AVAILABLE FOR PLAN BENEFITS	\$5,153,309,230	\$4,432,513,431

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Statement Of Reserve And Fund Balance Accounts		
	June 30, 1997	June 30, 1996
ACTUARIAL		
Member Contributions	\$683,048,131	\$637,736,799
Annuities	374,598,141	364,545,077
Pensions	3,588,534,786	3,146,422,364
Family Death Benefit Insurance	20,204,603	19,625,778
Health Benefits	486,923,569	264,183,412
Total Actuarial	\$5,153,309,230	\$4,432,513,431
OTHER		
Undistributed Earnings	\$0	\$0
Fund Balance	0	0
Total Other	0	0
TOTAL RESERVE AND FUND BALANCE	\$5,153,309,230	\$4,432,513,431

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Net Assets Available For Plan Benefits		
	Year Ended June 30, 1997	Year Ended June 30, 1996
REVENUES		
City Contributions	\$113,262,396	\$149,036,489
Members' Contributions	53,274,812	47,512,414
Income from Investments - Realized	830,892,232	186,208,990
Total Revenues	\$997,429,440	\$382,757,893
EXPENDITURES		
Pensions		
Retirement Allowances	\$226,902,682	\$211,396,773
Family Death Benefit Insurance	1,066,838	509,680
Health Benefits	<u>20,010,324</u>	<u>21,184,649</u>
Total	247,979,844	233,091,102
Refund of Members' Contributions	9,447,708	8,856,575
Administrative Expenses	19,206,089	12,490,598
Total Expenditures	\$276,633,641	\$254,438,275
NET REVENUES	\$720,795,799	\$128,319,618
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF THE YEAR	\$4,432,513,431	\$3,949,185,329
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF THE YEAR	\$5,153,309,230	\$4,432,513,431

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of Retirement Benefits

1. Eligibility: Members are eligible on their first day of City employment.
2. Final Compensation: Highest 12-month average salary.
3. Service Retirement:
 - A) Eligibility: Age 55 with 10 years of service, or any age with 30 years of service, or age 70.
 - B) Benefit: 2.16% of Final Compensation for each year of service.
 - C) Reduction for Early Retirement: Unreduced for retirement after age 60, or after age 55 with at least 30 years of service. Reduction factors apply for earlier retirement.
 - D) Form of Payment: Benefit payable for life with 50% continuance to eligible spouse or domestic partner if employee had that coverage at time of retirement. Larger continuances are available with actuarial reduction.
 - E) Special Early Retirement Benefit: Unreduced pensions are available for employees age 50 with 30 years of service who retire prior to September 30, 1999.

4. Disability Retirement:

- A) Eligibility: Five years of continuous service and physically or mentally incapacitated so unable to perform duties of position.
- B) Benefit: 1/70 of Final Compensation per year of continuous service. If service is less than 23-1/3 years, then service is projected to retirement, with a maximum service of 23-1/3 years.
- C) Form of Payment: Benefit payable for life with 50% continuance to eligible spouse or domestic partner if employee had this coverage at time of retirement. Larger continuances are available with actuarial reduction.

5. Deferred Service Retirement:

- A) Eligibility: Five years of service prior to termination of City service. Member must leave contributions on deposit.
- B) Benefit: Same as Service Retirement payable anytime after age 55, provided at least 10 years have elapsed from date of original membership (or anytime after age 70).
- C) Form of Payment: Same as Service Retirement.

6. Pre-retirement Death Benefits:

- A) Not Eligible for Disability or Service Retirement: Member receives (i), (ii), and (iii) where:
- (i) = Accumulated contributions with interest.
- (ii) = Limited monthly pension equal to half the average monthly salary for the year before death. Benefit is payable to surviving spouse, minor children, dependent parents or domestic partner, and is payable for a period of 2 months times the number of completed years of service, to a maximum of 12 months.
- (iii) = Family Death Benefit Insurance Plan benefit, if a qualified Member.

B) Eligible for Disability Retirement or Duty-Related Death:

Member receives (i) and (ii) where:

(i) = 100% of the benefit the Member would have received if he or she had been granted an Option 1 (Joint and 100%) actuarially reduced disability benefit on the day before death.

(ii) = Family Death Benefit Insurance Plan benefit, if a qualified Member.

Surviving spouse or domestic partner may elect A in lieu of B.

C) Eligible for Service Retirement

Surviving spouse or domestic partner receives a lifetime benefit equal to

100% of the benefit the Member would have been entitled to if he or she had been granted an Option 1 (Joint and 100%) actuarially reduced Service Retirement benefit on the day before death.

Benefits under the Family Death Benefit Insurance Plan are not available.

Surviving spouse or domestic partner may elect A or B in lieu of C.

7. Post-retirement Death Benefits:

Beneficiary receives (i), (ii), and (iii), where:

(i) = 50% continuance to surviving eligible spouse or domestic partner, if covered under the plan.

(ii) = Return of unused contributions and interest (provided normal cash refund annuity was selected) and any accrued but unpaid retirement allowance at death of last beneficiary eligible for monthly allowance.

(iii) = \$2,500 death benefit allowance for burial expenses at death of retired member.

8. Post-retirement
Cost-of-Living Benefits:

Each July 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

If benefit has been paid less than 12 months, the 3% increase is proportionately decreased.

9. Employee Contributions:

Pre-February 1983 participants:

Members are assumed to contribute per the schedule effective July 1, 1981. To the extent that Members contribute less than the full rates, the City should contribute 85% of the amounts otherwise paid by the Member.

Post-January 1983 participants:

Members contribute 6% of pay.

10. Family Death Benefit Insurance Plan:

A) Eligibility:

Employee may elect coverage after 18 months of City retirement service.

B) Benefits:

Benefits similar to those provided by Social Security Survivors' Insurance are payable if Member dies in active service after 18 months of Family Death Benefit Plan membership.

C) Cost:

It is recommended that the Member and City each contribute \$2.90 per month.

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of Health Subsidy Benefits

Eligibility: Members who retire with ten years of service. Subsidy begins at age 55. Medical benefits are available to an eligible spouse or domestic partner after the death of the eligible Member.

Subsidy:

Medical

For retired Members under age 65 or 65 and over with only Medicare Part B:

A percentage of the Maximum Subsidy, or the actual premium paid to a City approved health carrier, if less.

The percentage is 4% for each year of service, up to a maximum of 100% after 25 years.

Maximum Subsidy: The maximum is the rate currently paid for active City employees. As of July 1, 1997, this amount is \$472 per month.

For retired Members age 65 and over with Medicare Parts A and B:

A percentage of the premium paid to a City approved health carrier. The percentage is 75% with 10 - 14 years of service, 90% for 15-19 years of service and 100% for 20 years of service or more. Medicare Part B premiums are also paid.

For eligible surviving spouse or domestic partners:

The same subsidy provided to the Member, except this benefit is reduced to half of the Member's subsidy through September 30, 1999.

Dental

4% per year of service to a maximum of \$28.24 for Connecticut General and \$10.44 for Safeguard.

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of Actuarial Assumptions and Methods Used for Valuation of Retirement Benefits

Interest Rate: 8.0% per year.

Salary Increases: Total System payroll is assumed to increase 4.0% per year.

Annual salary increases for individuals vary by age.

Age	Annual Salary Increase
Under 34	7%
35 - 44	6%
45 - 54	5%
55 and over	4%

Cost-of-Living: 3.0% per year.

Mortality:

A. For Pensioners on Service Retirement and Beneficiaries

1971 Group Annuity Mortality Table, with a one year setback for males and a five year setback for females

Sample Rates

Deaths per 1,000		
Age	Males	Females
45	2.6	1.6
50	4.7	2.9
55	7.8	5.3
60	11.9	8.5
65	19.2	13.1
70	32.4	21.3
75	51.2	36.1

B. For Pensioners on Disability Retirement:

1981 Disability Mortality Table

Sample Rates

Age	Deaths per 1,000
45	20.8
50	24.4
55	28.4
60	33.0
65	37.9
70	43.7
75	55.3

Rehire for Former Employees:

All former employees are assumed not to be rehired.

Dependents:

Where no other information is available, Members are assumed to have two children with a three year difference in age. The eldest is assumed to reach age 21 when the participant reaches age 45.

Proportion of Members with Spouses or Domestic Partners at Retirement:

76% of male employees and 56% of female employees are assumed to be married or to have a qualified domestic partner at retirement. Wives are assumed four years younger than husbands.

Funding Method:

For retirement benefits: The Projected Unit Credit Cost Method.

For the Family Death Benefit Insurance Plan: One year term cost funding method, with an adjustment for the funded status of the plan at each valuation date.

Asset Valuation Method:

The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed 8.00% rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Special Early Retirement Rate:

Employees eligible for an enhanced retirement benefit during the 1997-1999 window period are assumed to retire at the rate of 25% per year.

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of Actuarial Assumptions and Methods Used for Valuation of Health Subsidy Benefits

Methods: Future cash flows were projected by applying medical trend rate factors to current annual claim rates.

Discount on Projected Cash Flows: 8% per year.

Medical Trend Rates:

	Medical Inflation		Dental Inflation
	Pre-65	Post-65	Pre and Post-65
1997-1998	8.50%	8.25%	8.50%
1998-1999	8.25%	8.00%	8.25%
1999-2000	8.00%	7.75%	8.00%
2000-2001	7.75%	7.50%	7.75%
2001-2002	7.50%	7.25%	7.50%
2002-2003	7.25%	7.00%	7.25%
2003-2004	7.00%	6.75%	7.00%
2004-2005	6.75%	6.50%	6.75%
2005-2006	6.50%	6.25%	6.50%
2006-2007	6.50%	6.00%	6.25%
2007-2008	6.25%	6.00%	6.00%
2008 +	6.00%	6.00%	6.00%

Medicare Premium Inflation Rate:

Year	Increase
1997-1998	\$43.80
1998-1999	6.50
1999-2000	6.25
2000+	6.00

*Estimated average of 1997 and 1998 Medicare Part B premiums.

Mortality:

1971 Group Annuity Mortality Table, with a one year age setback for males and a five year age setback for females.

Probability of Termination of Employment:

Same rates as used in valuation of retirement benefits. See retirement report for details.

City Medical Plan Coverage:

80% of all retirees are assumed to receive a subsidy for a City approved health carrier.

Spouses and Domestic Partners:

91% of male and 66% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.

Medicare Coverage:

85% of retirees are assumed to elect Medicare Parts A & B.

Dental Coverage:

65% of retirees are assumed to elect dental coverage.

Spousal Coverage:

With regard to Members who are currently alive, 75% of eligible spouse or domestic partners are assumed to elect continued health coverage after the Member's death. With regard to deceased Members, 70% of the current eligible survivors are assumed to elect health coverage.

Funding Method:

The prefunding of projected cash flows is determined using the Projected Unit Credit Funding Method.

Asset Valuation Method:

The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed 8.00% rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Medical subsidy benefits are based on a percentage of the maximum subsidy (currently \$472 per month), limited to the composite carrier rates shown on the table below.

The monthly dental subsidy amount assumed for current active members is \$.95 multiplied by years of service (maximum of 25).

Composite Carrier Rates For Health Subsidy Benefits	
	Monthly Rate
Medical	
Less Than Age 65	
Married	\$386.00
Single	292.00
Age 65 and Over	
Married	268.00
Single	103.00
Dental	0.95 per year of service (maximum 25 years)

CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Rates Of Separation From Active Service

A schedule of the probabilities of termination of employment due to the following causes can be found on the following pages:

- | | | |
|----|-------------------------------------------------|------------------------------------------------------------------------------------------------------|
| 1. | Ordinary Withdrawal: | Member terminates and elects a refund of Member contributions. |
| 2. | Service Retirement: | Member retires after meeting age and service requirements for reasons other than disability. |
| 3. | Ordinary Disability: | Member receives disability retirement; disability is not service related. |
| 4. | Service Disability: | None assumed. |
| 5. | Ordinary Death: | Member dies before eligibility for retirement; death is not service related. |
| 6. | Service Death: | None assumed. |
| 7. | Death While Eligible
for Service Retirement: | Member dies before retirement but after meeting age and service requirements for service retirement. |

Each rate represents the probability that a Member will separate from service at each age due to the particular cause. For example, a rate of 0.0020 for a Member's service retirement at age 50 means we assume that, on average, 2 out of 1,000 Members who are age 50 will retire at that age.

STATISTICAL SECTION

LACERS



STATISTICAL SECTION

SCHEDULE OF REVENUE BY SOURCE (Dollars in Millions)

Year Ending	Member Contributions	Employer Contributions		Investment Income	Total
		Dollars	% of Annual Covered Payroll		
1992	\$ 43.20	\$ 164.90	18%	\$ 311.40	\$ 519.50
1993	42.70	170.60	19%	265.80	479.10
1994	42.30	173.60	20%	337.40	553.30
1995	43.60	144.60	16%	232.30	420.50
1996	47.50	149.00	16%	541.20	737.70
1997	53.20	113.20	11%	830.80	997.20

SCHEDULE OF EXPENSES BY TYPE (Dollars in Millions)

Year Ending	Benefits Payments*	Administrative Expenses	Refunds	Misc	Total
1992	\$ 184.40	\$ 8.70	\$ 8.00	\$ 0	\$ 201.10
1993	197.00	10.30	6.90	0	214.20
1994	210.70	11.10	8.50	0	230.30
1995	221.90	10.20	7.70	0	239.80
1996	233.10	12.40	8.90	0	254.40
1997	248.00	19.10	9.40	0	276.50

*Includes Health Benefits but Not Family Death Benefits

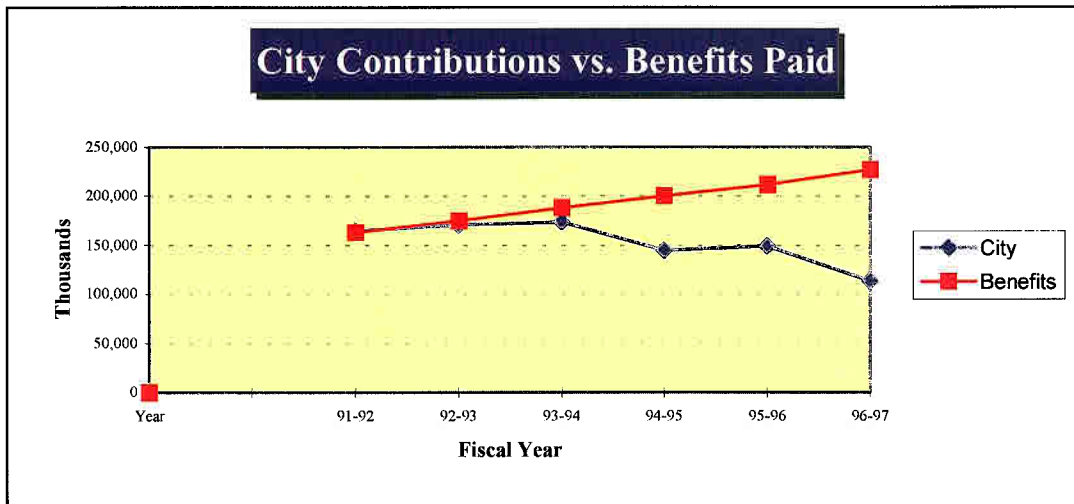


SCHEDULE OF BENEFIT EXPENSES BY TYPE (Dollars in Thousands)

Year Ending	Age & Service Benefits		Death in Service Benefits	Disability Benefits		Refunds	Total**
	Retirants	Survivors		Retirants	Survivors	Death / Separation	
1992*	\$ 145,968	\$ 13,392	\$ 5,508	\$ 6,420	\$ 1,032	\$ 8,000	\$ 180,320
1993*	158,352	15,444	5,748	6,852	1,080	\$ 6,900	\$ 194,376
1994*	169,872	17,040	6,108	7,080	1,152	\$ 8,500	\$ 209,752
1995*	179,052	18,516	6,540	7,368	1,296	\$ 7,700	\$ 220,472
1996*	188,244	20,004	6,972	7,656	1,428	\$ 8,900	\$ 233,204
1997*	206,880	22,296	7,296	8,232	1,548	\$ 9,400	\$ 255,652

* Projected from year end retirement roll
 ** These totals do not include Health Benefits or Family Death Benefits

CITY CONTRIBUTION versus BENEFITS PAID (Dollars in Thousands)



Fiscal Year	91-92	92-93	93-94	94-95	95-96	96-97
City Contributions	164,867	170,545	173,632	144,562	149,036	113,262
Benefits Paid	162,883	175,012	187,919	200,025	211,906	226,902



SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 1997)

Amount of Monthly Benefits	Number of Retirees	Type of Retirement**								Option Selected #						
		1	2	3	4	5	6	7	8	Life	Opt. 1	Opt. 2	Opt. 3			
Deferred	382								382							
\$1 - 250	1,428	468		625	83		75	177						29	1	6
251 - 500	1,992	894		632	165		248	53						61	3	21
501 - 750	1,696	1,016		327	109		230	14						89	8	50
751 - 1,000	1,414	1,028		164	73		138	11						104	6	88
1,001 - 1,250	1,119	919		91	32		71	6						104	14	91
1,251 - 1,500	910	818		44	30		15	3						76	14	110
1,501 - 1,750	743	678		42	19		4							80	5	106
1,751 - 2,000	608	575		22	11									68	6	99
Over 2,000	2,180	2,094		58	27		1							377	8	473
Totals	12,472	8,490		2,005	549		782	264						988	65	1,044

**** Type of Retiree**

- 1 - Normal retirement for age & service
- 2 - Early retirement
- 3 - Survivor payment - normal or early retirement
- 4 - Survivor payment - death in service

- 5 - Duty disability retirement
- 6 - Non-duty disability retirement
- 7 - Survivor payment - disability retirement
- 8 - Former member with deferred future benefit

Option Selected

- Life All benefits are for Life
- Opt. 1 - 100% to spouse
- Opt. 2 - 50% to ineligible spouse
- Opt. 3 - 60%, 75%, Other% to spouse



SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates July 1, 1991 to June 30, 1997	Years Credited Service					
	5-10 yrs.	10-15 yrs.	15-20 yrs.	20-25 yrs.	25-30 yrs.	30+ yrs.
Period 7/1/91 to 6/30/92:						
Average Monthly Benefit	\$ 574.63	\$ 828.76	\$ 1,307.58	\$ 1,747.06	\$ 2,293.14	\$ 3,189.96
Average Final Monthly Salary*	\$ 2,788.59	\$ 2,765.58	\$ 3,705.29	\$ 3,318.57	\$ 3,599.88	\$ 4,446.73
Number of Active Retirees	17	35	44	88	114	154
Period 7/1/92 to 6/30/93:						
Average Monthly Benefit	\$ 614.55	\$ 970.76	\$ 1,253.98	\$ 1,872.51	\$ 2,259.54	\$ 3,318.75
Average Final Monthly Salary*	\$ 2,956.33	\$ 3,375.10	\$ 3,206.76	\$ 3,559.30	\$ 3,572.77	\$ 4,796.57
Number of Active Retirees	15	46	73	85	142	172
Period 7/1/93 to 6/30/94:						
Average Monthly Benefit	\$ 598.32	\$ 901.44	\$ 1,398.18	\$ 1,744.14	\$ 2,194.52	\$ 3,194.18
Average Final Monthly Salary*	\$ 3,049.92	\$ 3,272.37	\$ 3,628.35	\$ 3,398.51	\$ 3,623.40	\$ 4,200.84
Number of Active Retirees	26	51	75	98	134	157
Period 7/1/94 to 6/30/95:						
Average Monthly Benefit	\$ 567.98	\$ 809.21	\$ 1,272.63	\$ 1,620.69	\$ 2,189.42	\$ 3,111.04
Average Final Monthly Salary*	\$ 3,049.04	\$ 3,046.35	\$ 3,305.49	\$ 3,262.16	\$ 3,676.64	\$ 4,237.83
Number of Active Retirees	27	43	52	87	129	135
Period 7/1/95 to 6/30/96:						
Average Monthly Benefit	\$ 615.37	\$ 852.13	\$ 1,279.85	\$ 1,802.90	\$ 2,222.87	\$ 3,350.89
Average Final Monthly Salary*	\$ 3,263.27	\$ 3,340.71	\$ 3,231.62	\$ 3,737.39	\$ 3,759.64	\$ 4,610.79
Number of Active Retirees	37	44	49	82	144	193
Period 7/1/96 to 6/30/97:						
Average Monthly Benefit	\$ 635.75	\$ 923.78	\$ 1,324.12	\$ 1,898.18	\$ 2,360.37	\$ 3,321.73
Average Final Monthly Salary*	\$ 4,388.37	\$ 3,454.96	\$ 3,545.59	\$ 3,805.73	\$ 3,852.25	\$ 4,613.78
Number of Active Retirees	26	45	51	56	182	322

*Final Monthly Salary = Average of last or highest 12 consecutive months.